Annual Report 2011

KAISUN ENERGY GROUP LIMITED

凱順能源集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8203

* For identification purpose only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the "Directors") of Kaisun Energy Group Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

The English text of this annual report shall prevail over the Chinese text in case of inconsistencies.

Corporate Information

Board of Directors

Executive Directors

Mr. Chan Nap Kee, Joseph *(Chairman and acting Chief Executive Officer)*
Dr. Chow Pok Yu, Augustine
Mr. Yang Yongcheng
Mr. Li Hong

Independent Non-Executive Directors

Mr. Liew Swee Yean
Mr. Siu Siu Ling, Robert
Dr. Wong Yun Kuen
Mr. Anderson Brian Ralph

Company Secretary

Mr. Leung Lit For
Ms. Young Helen

Audit Committee

Mr. Liew Swee Yean *(Committee Chairman)*
Mr. Siu Siu Ling, Robert
Dr. Wong Yun Kuen
Mr. Anderson Brian Ralph

Remuneration Committee

Dr. Wong Yun Kuen *(Committee Chairman)*
Mr. Chan Nap Kee, Joseph
Dr. Chow Pok Yu, Augustine
Mr. Liew Swee Yean
Mr. Siu Siu Ling, Robert
Mr. Anderson Brian Ralph

Authorised Representatives

Mr. Chan Nap Kee, Joseph
Mr. Leung Lit For

Auditors

RSM Nelson Wheeler

Compliance Officer

Dr. Chow Pok Yu, Augustine

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business in Hong Kong

5/F., 31C–D Wyndham Street,
Central, Hong Kong

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Wing Hang Bank Limited
Bank of Communications Co., Limited

Website

www.kaisunenergy.com

Stock Code

8203

Financial Summary

A summary of the results and of the assets and liabilities of the Group for each of the last five financial years/period is set out as below:

Results

	Year ended 31 December	Period ended 31 December	Year ended 31 March		
	2011	2010	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**62,680**	59,619	62,806	51,087	304,630
(Loss)/profit before tax	**(1,059,773)**	(24,784)	449,624	8,785	70,635
Income tax expense	**—**	(3,454)	(941)	(23)	(531)
Less: Loss/(profit) attributable to non-controlling interests	**12,062**	(3,597)	4,010	(53)	(993)
(Loss)/profit attributable to owners of the Company	**(1,047,711)**	(31,835)	452,693	8,709	69,111

Assets and Liabilities

	As at 31 December		As at 31 March		
	2011	2010	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**1,187,098**	3,870,185	3,764,298	1,040,403	152,005
Total liabilities	**(329,886)**	(1,383,419)	(1,390,922)	(721,207)	(11,691)
Owners' funds	**821,879**	1,730,415	1,642,401	279,489	127,962

Chairman's Statement

Results

On behalf of the Board of Kaisun Energy Group Limited (the "Company") and its subsidiaries (collectively the "Group"), I am pleased to present the audited consolidated results for the year ended 31 December 2011 (the "Year"). The Group's consolidated turnover for the Year was amounting HK$62.7 million and total comprehensive income for the Year attributable to owner of the Company was amounting HK$(1,110.4) million.

Business Review

The Group generated its turnover of approximately HK$6.1 million and HK$56.6 million from continuing operations and discontinued operations for the Year respectively.

Because of disposal of Mengxi Minerals, results of Mengxi Minerals were classified as "discontinued operations" according to IFRSs, with details of its results stated in note 11 to the financial statements.

The Group generated its turnover of approximately HK$6.1 million from the sale of coal from the Tajikistan operation for the Year, which becomes the sole continuing operation of the Group after disposal of Mengxi Minerals. Background, plans and other details of the Tajikistan operation was stated in the Company's circular dated 6 October 2011 ("the Circular").

Acquisition and Disposal

Acquisition of Saddleback Mining Limited, expanding Group's coal mining assets to Tajikistan

On 15 March 2011, West Glory Development Limited ("Buyer"), a wholly owned subsidiary of the Company and Saddleback Corporation Limited have entered into the Sales and Purchase Agreement pursuant to which the Buyer had conditionally agreed to acquire 100% interest in Saddleback Mining Limited by cash and the Company's shares, details of which were disclosed in the Company's announcement dated 15 March 2011.

Nazar-Aylok Anthracite deposit

Saddleback Mining Limited's subsidiaries are principally engaged in coal and anthracite mining and exploration in Tajikistan, and own mining rights and interests in three mines in Tajikistan, including the Nazar-Aylok anthracite deposit, the Zeddi coal deposit and the Mienadu coal deposit.

On 25 March 2011, acquisition of interest in Saddleback Mining Limited was completed. Upon completion, Saddleback Mining Limited became a wholly owned subsidiary of the Company.

Very Substantial Disposal — Equity Transfer Agreement on sale of equity interest in Mengxi Minerals ("Equity Transfer Agreement") — obtaining shareholders approval in Extraordinary General Meeting dated 24 October 2011 ("EGM")

On 15 June 2011, Joy Harvest Holdings Limited ("Vendor"), the wholly owned subsidiary of the Company and Otog Banner Xin Ya Coking Coal Co. Ltd. ("Purchaser") entered into the Equity Transfer Agreement pursuant to which the Vendor had conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase 70% of the registered capital in Mengxi Minerals (being the Equity Interest) at a cash Consideration of RMB810 million (equivalent to approximately HK$976 million), details of which were disclosed in the Company's announcement dated 18 July 2011, and the Company's circular dated 6 October 2011.

During EGM, the effective resolution of the Equity Transfer Agreement was duly passed as ordinary resolution by way of poll at the EGM, with 100% of voting shares (note 1) voted in favour of the Equity Transfer Agreement, fulfilling condition (c) as stated in page 9 of the Circular, being one of the conditions precedent for completion of the Equity Transfer.

As additional time is required by the Purchaser to procure the issuance of a new business license upon conversion of Mengxi Minerals from a sino-foreign equity joint venture into a PRC domestic enterprise, the parties to the Equity Transfer Agreement have entered into a confirmation letter in relation to the Equity Transfer Agreement on 20 December 2011 to extend the Closing Date from 31 December 2011 to 31 March 2012. Save and except for the said extension of the Closing Date, all other terms and conditions of the Equity Transfer Agreement remains unchanged.

As at 22 December 2011, all the conditions precedent capable of being procured or fulfilled by the Company or Vendor were completed.

note 1: voting shares were based on the total number of issued, fully paid Company's shares with voting rights held by the independent shareholders who voted at the EGM in person or by proxy.

Outlook and Prospects

On 14 November 2011, the Company and Xinjiang Uygur Autonomous Region Coal Geology Bureau have entered into a Letter of Intent pursuant to which the parties will cooperate with each other to carry out exploration, exploitation etc. of coal mines in Tajikistan, details of which were mentioned in the article dated 15 November 2011 "What's new" in the Company's website and the related Company's announcement dated 14 November 2011.

Bituminous Coal of the East Zeddi deposit

As discussed in previous report, in light of the changing business environment and current business standing of the Company, the Board is prudent and not rushing into decision that could effectively constrain our operation, capital wise and business wise in the next few years. The proceeds from the disposal of the Company's equity interest in Mengxi Minerals may be used on our mining project in Tajikistan to accelerate its development and production progress or any other investment opportunities that matches the scale of our Company and fits in our Company's development in the energy and resources.

The Group's strategy continues to be actively looking for other appropriate investment opportunities in the energy and resources sector. Announcement(s) will be published when appropriates.

Appreciation

On behalf of the Board, I would like to express my sincere gratitude to our fellow directors, staff members, and business partners throughout the Year. The Company's directors and management will dedicate their best efforts to strive for the best interests for its shareholders and business associates.

Chan Nap Kee, Joseph
Chairman

Hong Kong, 30 March 2012

Management Discussion and Analysis

The following discussion and analysis should be read in conjunction with our financial statements together with the accompanying notes included in this annual report. The financial statements have been prepared in accordance with International Financial Report Standards ("IFRSs", each a "IFRS") issued by the International Accounting Standards Board.

Financial Review

Turnover of the Group for the Year from continuing operations and discontinued operations amounted to approximately HK$6.1 million and HK$56.6 million respectively (for the nine months ended 31 December 2010: continuing operations: HK$Nil, discontinued operations: HK$59.6 million).

Gross profit from the Group's continuing and discontinued operations for the Year was approximately HK$5.0 million (for the nine months ended 31 December 2010: HK$28.9 million).

For the Year, the total administrative and other operating expenses from the Group's continuing and discontinued operations totaled HK$75.8 million (for the nine months ended 31 December 2010: HK$38.1 million).

For the Year, total finance costs from the Group's continuing and discontinued operations amounted to HK$21.3 million (for the nine months ended 31 December 2010: HK$16.2 million).

The Group recorded loss for the Year of approximately HK$1,059.8 million (for the nine months ended 31 December 2010: HK$28.2 million).

The total comprehensive income attributable to owners of the Company for the Year amounted to approximately HK$(1,110.4) million (for the nine months ended 31 December 2010: HK$19.0 million).

Liquidity and Financial Resources

As at 31 December 2011, the Group has bank and cash balances of approximately HK$294.8 million (as at 31 December 2010: HK$242.4 million).

Final Dividend

In order to retain resources for the Group's business development, the Board does not recommend the payment of a final dividend for the Year (for the nine months ended 31 December 2010: HK$Nil).

Gearing Ratio

The Group's gearing ratio, which represents the ratio of the Group's total liabilities over the Group's total assets, was 0.28 as at 31 December 2011 (as at 31 December 2010: 0.36).

Capital Structure

On 25 March 2011, the Company increased its issued share capital from 2,114,383,750 shares to 2,537,260,500 shares as a result of the issuance of 422,876,750 consideration shares pursuant to the share sale and purchase agreement regarding acquisition of Saddleback Mining Limited as disclosed in the Company's announcement dated 15 March 2011.

During the Year, the Company received exercise notices from the grantees regarding the exercise of share option of conversion into 74,745,200 new shares.

Foreign Exchange Exposure

Majority of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars, Tajikistan Somoni ("TJS"), United States dollars and Renminbi ("RMB"). As at 31 December 2011, the Group had no significant exposure under foreign exchange contracts, interest, currency swaps or other financial derivatives.

Income Tax

Details of the treatment of the Group's income tax expense for the Year are set out in note 10 to the financial statements.

Human Resources

As at 31 December 2011, the Group had 32 (as at 31 December 2010: 67) staff in Hong Kong and Tajikistan. The Group continues to employ, promote and reward its staff with reference to their performance and experience. In addition to their basic salaries, the Group's employees are also entitled to other fringe benefits such as provident fund. The management will continue to closely monitor the human resources requirements of the Group, and will also put emphasis on the staff quality. During the Year, the Group had not experienced any significant labour disputes which led to the disruption of its normal business operations. The Directors consider the Group's relationship with its employees to be good.

The total staff costs, including Directors' emoluments, amounted to approximately HK$45.1 million (for the nine months ended 31 December 2010: HK$7.3 million) for the Year.

Segment Report

The detailed segmental analysis are provided in note 42 to the financial statements.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2011.

Litigation

As at 31 December 2011, the Group had no significant pending litigation.

Biography of Directors and Senior Management

Executive Directors

Mr. Chan Nap Kee, Joseph, aged 51, is the chairman and acting chief executive officer of the Group. He was appointed as an executive director in September 2008. He received his master degree majoring in international marketing from the University of Strathclyde and a diploma in China Investment and Trade from Peking University.

Mr. Chan has close to twenty five years of experience in commercial and investment banking, and asset management. From 1994 to now, Mr. Chan has been a founding partner of Oriental Patron Financial Group where he is also an executive director of Oriental Patron Asia Limited and Oriental Patron Securities Limited. Oriental Patron Asia Limited is the investment manager of OP Financial Investments Limited (Stock Code: 1140), a company listed on the Main Board of the Stock Exchange. Mr. Chan is also a non-executive director of Hainan Meilan International Airport Company Limited (Stock Code: 357), a company listed on the Main Board of the Stock Exchange.

Mr. Chan was the deputy manager of Credit Agricole from 1986 to 1994, where he was in charge of the China business. From 1992 to 1994, he was also the co-head of Credit Agricole Asset Management South East Asia Limited.

He holds licenses respectively of Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), and Type 9 (asset management) under the Securities and Futures Ordinance (cap. 571 of the Laws of Hong Kong).

Save as disclosed above, as at the date of this report, Mr. Chan did not have other major appointments and professional qualifications, did not hold any positions in the Group and did not have any directorships held in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas.

Dr. Chow Pok Yu, Augustine, aged 59, was appointed as an executive director in November 2008. He is a director of Harmony Asset Limited (Stock Code: 0428), a company listed on the Stock Exchange. He is chairman of Harmony Asset Management Limited which is the investment manager of Harmony Asset Limited. He is also director and independent director of two overseas listed companies namely Celsion Corporation (AMEX: CLSN) and Medifocus Inc. (TSX Venture: MFS) respectively.

Dr. Chow has vast experience in managing public listed companies that are involved in manufacturing, marketing and financial services, and specializes in mergers and acquisitions.

Dr. Chow holds professional memberships in the Institute of Marketing (HK), Institute of Financial Accountants (UK), and Hong Kong Securities Institute. He also holds an Honorary Fellowship from Bolton University. In addition, he serves on the Global Advisory Council of London Business School.

Dr. Chow holds a MSc from London Business School and PhD from University of South Australia. He also holds MPhil and Engineering Doctorate from City University of Hong Kong.

Biography of Directors and Senior Management

Save as disclosed above, as at the date of this report, Dr. Chow did not have other major appointments and professional qualifications, did not hold any positions in the Group and did not have any directorships held in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas.

Mr. Yang Yongcheng, aged 43. He was appointed as an executive director in February 2009. He graduated from the Yikezhao League School of Finance (伊盟財經學校) in Inner Mongolia of the PRC and the China Central Radio & TV University, majoring in financial accounting. He holds an EMBA from the Zhongnan University of Economics and Law.

Mr. Yang was appointed as the chief of the finance division of Inner Mongolia Hangjinqi Materials Company (內蒙古杭錦旗物資公司) in September 1989; a manager of Eqianqi Coke-oven Plant of Inner Mongolia Yimei Group (內蒙古伊煤集團鄂前旗焦化廠) in January 2001; a deputy general manager of Inner Mongolia Mengxi Building Materials Company (內蒙古蒙西建材公司) in July 2003; the chairman of Inner Mongolia Mengxi Kaolin Co., Ltd. in August 2005; and the chairman and general manager of Inner Mongolia Mengxi Coal Limited (內蒙古蒙西煤炭有限公司) in January 2008. He has been serving as a director of the joint venture Inner Mongolia Mengxi Minerals Co., Limited since the joint venture was established in September 2008.

Mr. Yang has been involved in senior positions for corporate management for a long period of time, has profound knowledge of the human and economic development environment in the Mengxi region of Inner Mongolia of the PRC, and possesses extensive experience in corporate investment, product and market development as well as operation of minerals enterprises.

Save as disclosed above, as at the date of this report, Mr. Yang did not have other major appointments and professional qualifications and did not have any directorships held in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas.

Mr. Li Hong, aged 48, was appointed as executive director and chief operating officer of the Company with effect from 3 September 2010. He joined the Group in July 2009 as the Vice Operation Director of China District of the Group, and took up the role of General Manager of Mengxi Minerals since October 2009. In order to raise effectiveness in site operation and administration, Mr. Li has been appointed as the director and chief executive officer of Mengxi Minerals effective from August 2010, and President of Mengxi Minerals effective from October 2010.

Mr. Li holds a graduate degree in economics of Guangdong Academy of Social Sciences of the People's Republic of China. He has over 20 years of solid experience in financial and administrative management of various industries and also over 5 years experience in the mining industry.

Independent Non-Executive Directors

Mr. Liew Swee Yean, aged 49, is the chairman of audit committee and member of remuneration committee of the Board.

He is a director of Autism Recovery Network Limited, and the director of business development of eBroker Systems Limited. Mr. Liew was appointed as an independent non-executive director of Siberian Mining Group Company Limited (Stock Code: 1142) from December 2008.

Mr. Liew is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Liew holds a Master of Business Administration (Executive) Degree from the City University of Hong Kong.

Save as disclosed above, as at the date of this report, Mr. Liew did not have other major appointments and professional qualifications and did not have any directorships held in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas.

Mr. Siu Siu Ling, Robert, aged 60, is member of audit committee and remuneration committee, He is a partner of the firm Messrs. Robert Siu & Co., Solicitors. Mr. Siu is an independent non-executive director of Incutech Investments Limited (Stock Code: 356), Finet Group Limited (Stock Code: 8317) and China Packaging Group Company Limited (Stock Code: 572), all of which are listed on the Hong Kong Stock Exchange.

Mr. Siu holds a bachelor's degree in laws from the University of London and a postgraduate certificate in laws from the University of Hong Kong. He has been admitted as a solicitor in Hong Kong since 1992 and has been admitted as a solicitor in England and Wales since 1993. His main legal practice is in the field of commercial and corporate finance.

Save as disclosed above, as at the date of this report, Mr. Siu did not have other major appointments and professional qualifications and did not have any directorships held in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas.

Dr. Wong Yun Kuen, aged 54, is the Chairman of Remuneration Committee and member of audit committee. He received two B.S. degrees in Geology and Mathematics from University of Wyoming, and Master and Ph.D. degree in Geophysics from Harvard University, and was "Distinguished Visiting Scholar" in finance at Wharton School of the University of Pennsylvania. Dr. Wong has worked in financial industries in the United States and Hong Kong for many years, and has considerable experience in corporate finance, investment and derivative products. He is an Adjunct Professor of Syracuse University, USA, and a member of Hong Kong Securities Institute and a life member of American Geophysical Union.

Biography of Directors and Senior Management

He is an executive director of UBA Investments Limited, and the independent non-executive director of Bauhaus International (Holdings) Limited, China Grand Forestry Green Resources Group Limited, Climax International Company Limited, Kingston Financial Group Limited, Harmony Asset Limited, Hua Yi Copper Holdings Limited, Kong Sun Holdings Limited, China Yunnan Tin Minerals Group Company Limited, New Island Printing Holdings Limited and ZMAY Holdings Limited.

Save as disclosed above, as at the date of this report, Dr. Wong did not have other major appointments and professional qualifications and did not have any directorships held in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas.

Mr. Anderson Brian Ralph, aged 69, is member of audit committee and remuneration committee. He holds a Bachelor of Science Degree in Metaliferous Mining Engineering from the Camborne School of Mines, the University of Exeter and a Master of Science Degree in Petroleum Reservoir Engineering from the University of London.

Mr. Anderson has more than 45 years of global experience (of which 32 years with Shell International) in the mining and energy resources industries.

During his tenure as a Chairman of Royal Dutch/Shell Group of Companies ("Shell") in North East Asia, he was responsible for developing Shell's future business, in particular through the formation of important strategic alliances with two of the major state-owned Chinese petroleum corporations, which have since led to multi-billion dollar investment commitments in the petroleum and petrochemicals sectors in China, including important new business opportunities in coal gasification.

Mr. Anderson's China experience also includes a 6-year involvement with the prestigious China Council for International Co-operation on the Environment and Development and which includes Ministerial and Vice-Ministerial level appointees from within the PRC government, and top-level international members from government and global multilateral organization and businesses. He represented the Shell's group of companies as a council member for 4 years, and has participated as a member of two taskforces involved with energy and sustainable development policy for China.

Mr. Anderson is a founding member and a director of Acura Limited, an energy marketing and consulting firm, founding member and Chairman of CleanCoalGas Limited, a firm focusing on clean coal project development, both registered in Hong Kong, and is the chairman and managing director of Anderson Energy (Hong Kong) Limited, an energy consulting firm advising corporate clients globally.

Senior Management

Mr. Ralston-Saul Alastair John, aged 67, is the Director of Investor Relations of Saddleback Gold Corporation Limited, a wholly-owned subsidiary of the Group. He joined the Group in late March 2011 upon the acquisition of Saddleback Mining Limited by the Group. Mr. Alastair is the co-founder of Saddleback in 2004, and has over 15 years experience of setting up mining companies in Tajikistan.

Mr. Ralston-Saul William Brock, aged 30, is the Director of Saddleback Mining Limited, a wholly-owned subsidiary of the Group. He joined the Group in late March 2011 upon the acquisition of Saddleback Mining Limited by the Group. He is a co-founder of Saddleback in 2004. He has 10 years experience managing mines in Tajikistan and speaks fluent Russian. With an in depth understanding of Tajikistan working practices, he has managed operation of coal mines and processing plants in Tajikistan.

Report of the Directors

The board ("Board") of directors ("Directors") of the Company is pleased to submit its report together with the audited consolidated financial statements ("Financial Statements") of the Company and its subsidiaries (collectively as "the Group") for the year ended 31 December 2011.

Principal Activities and Segment Analysis of Operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 35 to the Financial Statements.

An analysis of the Group's performance for the year ended 31 December 2011 by segments is set out in note 42 to the Financial Statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2011 are set out in the consolidated income statement on page 37.

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2011.

Reserves

Movements in the reserves of the Group during the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income and consolidated statement of changes in equity of the Group.

Donations

Charitable and other donations made by the Group during the year ended 31 December 2011 amounted to HK$Nil (for the nine months period ended 31 December 2010: HK$Nil).

Fixed Assets

Details of the movements in fixed assets of the Group are set out in note 17 to the Financial Statements.

Share Capital

Particulars of the share capital of the Company are set out in note 31 to the Financial Statements.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2011 amounted to HK$697,797,102 (as at 31 December 2010: HK$794,804,721). Under Section 34 of the Companies Law of the Cayman Islands, the reserves are available for distribution to shareholders subject to the provisions of the articles of association of the Company (the "Articles") and no distribution shall be paid to shareholders of the Company ("Shareholders") out of the reserves unless the Company shall be able to pay its debts as they fall due in the ordinary course of business of the Group.

Five Years/Period Financial Summary

A summary of the published results and the assets and liabilities of the Group for each of the last five financial years/period is set out on page 4.

Purchase, Sale or Redemption of Shares

The Company has not redeemed any of the shares of the Company ("Shares") during the year under review. Neither the Company nor any of its subsidiaries has purchased or sold any Shares during the year under review.

Pension Scheme

According to the legislation of Hong Kong relating to the Mandatory Provident Fund ("MPF"), with effect from 1 December 2000, the Group is required to participate in the MPF scheme operated by approved trustees in Hong Kong and to make contributions for its eligible employees. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contributions is limited to HK$1,000 for each eligible employee) as calculated under the MPF legislation.

The detailed information of the Group's pension scheme are set out in note 16 to the Financial Statements.

Share Options

A share option scheme (the "Scheme") was adopted by the Shareholders by way of written resolutions passed on 9 December 2003. Details of the Scheme are as follows:

The principal purpose of the Scheme is to enable the Company to grant options to subscribe for Shares ("Options") to the following eligible persons as incentives or rewards for their contributions to the Group:

(1) any full time employee or director of any member of the Group;

(2) any part time employee of any member of the Group who has spent not less than 10 hours per week in providing services to such member of the Group, determined by averaging out the total number of hours so spent in a period of four weeks immediately preceding the week in which the Options are offered to such part time employee; or

(3) any consultant or adviser of or to any member of the Group who has provided technical know-how and consultancy services to such member of the Group in accordance with the terms of a contractual relationship entered into between the consultant or adviser with such member of the Group.

The existing maximum number of Shares which may be issued upon the exercise of all Options to be granted under the Scheme and any other share option schemes of the Company is 253,726,050 Shares, being 46.99% of the Company's issued share capital as at the date on which the dealings in the Shares first commenced on the Stock Exchange and about 9.71% of the Company's issued share capital as at the date of this annual report.

The total number of Shares issued and to be issued upon exercise of the Options granted to a participant ("Participant") (including both exercised or outstanding Options), being any eligible person who accepted the offer of any Option, under the Scheme in any 12-month period must not exceed 1% of the Shares in issue from time to time unless prior approval is obtained from the independent Shareholders of the Company in a general meeting. If a grant of Options to a substantial Shareholder of the Company (as defined in the Rules ("GEM Listing Rules") Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited) or an independent non-executive director of the Company or any of their respective associates (as defined in the GEM Listing Rules) will result in the total number of the Shares issued and to be issued upon exercise of the Options granted or to be granted (including both exercised and outstanding Options) to such person in any 12-month period up to and including the proposed dated of the grant exceeding 0.1% of the Shares in issue and having an aggregate value, based on the closing price of the Shares at the proposed date of such each grant, in excess of HK$5 million, then the proposed grant of Options must be subject to Shareholders' approval in general meeting with all connected persons (as defined in the GEM Listing Rules) abstained from voting.

The Options may be exercised in accordance with the terms of the Scheme at any time during the option period. The Scheme does not require a minimum period for which the Options must be held or a performance target which must be achieved before any Option can be exercised. The Board shall be entitled at its absolute discretion to decide the option period subject to the Scheme, provided that it shall not exceed 10 years from the date on which the Option is deemed to be granted and accepted in accordance with the rules of the Scheme.

The Options will be offered for acceptance for a period of 28 days from the date on which the Options are offered to an eligible person. Upon acceptance of the Options, the eligible person shall pay HK$1 to the Company as consideration for the grant.

The subscription price for each Share subject to and upon the exercise of the Options will be a price determined by the Board and notified to each Participant and shall be at least the highest of (i) the closing price of each Share on GEM as stated in the daily quotations sheet of Stock Exchange on the date of grant of the Options, which must be a business day; (ii) the average closing price of each Share on GEM as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the Option; and (iii) the nominal value of one Share.

The Scheme will remain valid for a period of 10 years commenting from 9 December 2003.

On 12 August 2011, as approved by the Board of Directors, a total of 135,266,840 Options, have been granted to 8 directors, 7 staffs and 3 consultants for a total of 135,266,840 Shares of the Company at an exercise price of HK$0.215 per Share. As at 31 December 2011, a total of 5,376,036 Shares, representing 0.21% of the existing issued share capital of the Group are available for issue in respect of the remaining options which may be granted under the Scheme.

Since 1 January 2011 and up to the date of this report, the 79,745,200 Options have been exercised by the Participants. Due to the resignation of 3 employees and 2 consultants of our subsidiary, 11,337,500 Options had lapsed during the year under review.

Details of the Options granted under the Scheme during the year ended 31 December 2011 are as follows:

	Date of Grant	Exercise Period	No. of Option: Outstanding as at 1/1/2011	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31/12/2011
Directors							
Chan Nap Kee, Joseph	8/1/2009	8/1/2009–7/1/2012	4,925,000	—	—	—	4,925,000
	9/2/2010	9/2/2010–8/2/2013	20,056,750	—	—	—	20,056,750
	12/8/2011	12/8/2011–9/12/2013	—	25,372,600	—	—	25,372,600
Chow Pok Yu, Augustine	8/1/2009	8/1/2009–7/1/2012	4,925,000	—	—	—	4,925,000
	12/8/2011	12/8/2011–9/12/2013	—	25,372,600	(25,372,600)	—	—
Yang Yongcheng	11/8/2009	11/8/2009–10/8/2012	4,925,000	—	—	—	4,925,000
	12/8/2011	12/8/2011–9/12/2013	—	10,000,000	—	—	10,000,000
Li Hong	18/11/2009	18/11/2009–17/11/2012	3,000,000	—	—	—	3,000,000
	12/8/2011	12/8/2011–9/12/2013	—	25,372,600	(25,372,600)	—	—
Liew Swee Yean	12/8/2011	12/8/2011–9/12/2013	—	2,537,260	—	—	2,537,260
Siu Siu Ling, Robert	12/8/2011	12/8/2011–9/12/2013	—	2,537,260	—	—	2,537,260
Wong Yun Kuen	12/8/2011	12/8/2011–9/12/2013	—	2,537,260	—	—	2,537,260
Anderson Brian Ralph	11/8/2009	11/8/2009–10/8/2012	1,200,000	—	—	—	1,200,000
	12/8/2011	12/8/2011–9/12/2013	—	2,537,260	—	—	2,537,260
		Sub-total	39,031,750	96,266,840	(50,745,200)	—	84,553,390
Employees in aggregate	11/8/2009	11/8/2009–10/8/2012	3,337,500	—	—	(3,137,500)	200,000
	12/8/2011	12/8/2011–9/12/2013	—	23,500,000	(13,500,000)	—	10,000,000
Other participants in aggregate	19/2/2008	19/2/2008–18/2/2011	500,000	—	—	(500,000)	—
	24/6/2008	24/6/2008–23/6/2011	7,700,000	—	—	(7,700,000)	—
	18/10/2010	18/10/2010–17/10/2013	42,287,674	—	—	—	42,287,674
	12/8/2011	12/8/2011–9/12/2013	—	15,500,000	(10,500,000)	—	5,000,000
			92,856,924	135,266,840	(74,745,200)	(11,337,500)	142,041,064

Note: These Options represent personal interest held by the relevant directors as beneficial owners.

Report of the Directors

Directors

The Directors during the year and up to the date of this report were:

Executive Directors:
Mr. Chan Nap Kee, Joseph *(Chairman and Acting Chief Executive Officer)*
Dr. Chow Pok Yu, Augustine
Mr. Yang Yongcheng
Mr. Li Hong

Independent Non-Executive Directors
Mr. Liew Swee Yean
Mr. Siu Siu Ling, Robert
Dr. Wong Yun Kuen
Mr. Anderson Brian Ralph

According to Article 86 of the articles of association of the Company ("the Articles"), the directors shall have the power from time to time and at any time to appoint any person as a director to fill a casual vacancy on the Board or, as an addition to the existing Board provided that the number of directors so appointed by the Board shall not exceed any maximum number determined from time to time by the Shareholders in general meeting. Any director so appointed by the Board shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the following annual general meeting of the Company ("AGM") (in the case of an addition to the Board), and shall then be eligible for re-election at that meeting.

During the year, in accordance with Article 86 of the Articles, no director will retire from office and shall then be eligible for re-election at that meeting.

According to Article 87 of the Articles, one-third of the directors for the time being (or, if the number of directors is not three (3) or a multiple of three (3), the number nearest to but not less than one-third), shall retire at each AGM by rotation, provided that every director shall be subject to retirement by rotation at least once every three (3) years. The retiring directors shall then be eligible for re-election at the AGM.

In accordance with Article 87 of the Articles, Mr. Liew Swee Yean, Mr. Siu Siu Ling Robert and Dr. Wong Yun Kuen will retire from offices by rotation at the forthcoming AGM, and being eligible, offer themselves for re-election at the forthcoming AGM.

The Company has received from each of Mr. Liew Swee Yean, Mr. Siu Siu Ling Robert, Dr. Wong Yun Kuen and Mr. Anderson Brian Ralph, being the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company still considers each of the independent non-executive directors to be independent.

Directors' Service Contracts

The term of office for each of Mr. Liew Swee Yean, Mr. Siu Siu Ling Robert, Dr. Wong Yun Kuen and Mr. Anderson Brian Ralph, being the independent non-executive directors, is for a term of one year and may be extended for such period as agreed in writing by the directors concerned and the Company. Currently, Mr. Liew Swee Yean has been appointed as an independent non-executive director up to 7 November 2012, Mr. Siu Siu Ling Robert has been appointed as an independent non-executive director up to 31 December 2012, Dr. Wong Yun Kuen has been appointed as an independent non-executive director up to 29 September 2012, while Mr. Anderson Brian Ralph has been appointed as an independent non-executive director up to 22 January 2013.

Save as disclosed above, none of the directors has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Details of the directors' emoluments are set out in note 13 to the Financial Statements.

Directors' Remuneration

It is proposed that the Board be authorised to fix the directors' remuneration at the forthcoming AGM. The remuneration, including any bonus payments, housing allowance and share options, to be paid to the directors, are recommended by the remuneration committee of the Board ("Remuneration Committee") with reference to the directors' duties, responsibilities and performance and the results of the Group.

Directors' Interests in Contracts

There were no contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company was a party and in which a director had a material interest, whether directly or indirectly, subsisting as at the end of the year or at any time during the year under review.

Directors' And Chief Executives' Interests And Short Positions In The Shares, Underlying Shares And Debentures Of The Company Or Any Associated Corporations

As at 31 December 2011, the interests and short positions of the directors and the chief executives in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by the directors are as follows:

Long position in Shares and underlying Shares

Name of Directors	Capacity	Number of Shares	Number of underlying Shares *(Note)*	Approximate percentage of the total issued Shares as at 31 December 2011
Chan Nap Kee, Joseph	Beneficial owner	20,420,000	50,354,350	2.71%
Chow Pok Yu, Augustine	Beneficial owner	26,362,600	4,925,000	1.20%
Yang Yongcheng	Beneficial owner	100,000	14,925,000	0.58%
Li Hong	Beneficial owner	25,372,600	3,000,000	1.09%
Liew Swee Yean	Beneficial owner	540,000	2,537,260	0.12%
Siu Siu Ling, Robert	Beneficial owner	540,000	2,537,260	0.12%
Wong Yun Kuen	Beneficial owner	2,000,000	2,537,260	0.17%
Anderson Brian Ralph	Beneficial owner	—	3,737,260	0.14%

Note: The long position in the underlying Shares mentioned above represent the Shares to be issued and allotted upon the exercise in full of the options granted by the Company to the above mentioned directors pursuant to the share option scheme.

Save as disclosed above, as at 31 December 2011, none of the directors or chief executive of the Company had any interest or short position in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Ordinance) which is required to be notified to the Company and the Stock Exchange pursuant to divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or any interests required to be entered in the register maintained in accordance with Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors.

Interests and Short Positions of Substantial Shareholders in Shares and Underlying Shares

(a) As at 31 December 2011, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interest disclosed above in respect of the directors, the following shareholders had notified the Company of relevant interests and short positions in the Shares and underlying Shares:

Long positions in Shares and underlying Shares

Name of Shareholders	Capacity and nature of interest	Number of Shares	Number of underlying Shares *(Note 3)*	Total Interest	Approximate percentage of the total issued Shares as at the 31 December 2011
Substantial shareholders					
Zhang Zhi Ping	Interest of controlled corporations	215,640,000	314,490,000	530,130,000 *(Note 1)*	20.30%
Zhang Gaobo	Interest of controlled corporations	215,640,000	314,490,000	530,130,000 *(Note 1)*	20.30%
Oriental Patron Financial Group Limited ("OPFGL")	Interest of controlled corporations	215,640,000	314,490,000	530,130,000 *(Note 1)*	20.30%
OP Financial Investments Limited ("OPFIL")	Interest of a controlled corporation	129,260,000	206,070,000	335,330,000 *(Note 1)*	12.84%
Profit Raider Investments Limited ("PRIL")	Beneficial owner	129,260,000	206,070,000	335,330,000 *(Note 1)*	12.84%
Other persons who had interests in the Shares and underlying Shares					
Oriental Patron Financial Services Group Limited ("OPFSGL")	Interest of a controlled corporation	86,380,000	108,420,000	194,800,000 *(Note 1)*	7.46%
GEM Global Yield Fund Limited ("GEM Global")	Beneficial owner/ Interest of a controlled corporation	230,000,000	791,000,000	1,021,000,000 *(Note 2)*	39.09%
Saddleback Corporation Limited	Beneficial owner	422,876,750	—	422,876,750	16.19%

Report of the Directors

Notes:

1. OPFGL holds 215,640,000 Shares and 314,490,000 underlying Shares. OPFGL is 51% owned by Zhang Zhi Ping and is 49% owned by Zhang Gaobo.

   Of these 215,640,000 Shares and 314,490,000 underlying Shares of the Company, 86,380,000 Shares and 108,420,000 underlying Shares are held by PTHL. PTHL is wholly-owned by OPFSGL, OPFSGL is 95% held by OPGFL. Zhang Zhi Ping, Zhang Gaobo, OPFGL and OPFSGL are deemed to be interested in the interests held by PTHL under the SFO.

   Of these 215,640,000 Shares and 314,490,000 underlying Shares, 129,260,000 Shares and 206,270,000 underlying Shares are held by PRIL. PRIL is wholly-owned by OPFIL, OPFIL is 42.07% held by Ottness Investments Limited ("OIL"). Zhang Zhi Ping, Zhang Gaobo, OPFGL, OIL and OPFIL are deemed to be interested in the interests held by PRIL under the SFO.

2. These 1,021,000,000 Shares and underlying Shares represent the aggregate of: (i) the 230,000,000 Shares held by Grand Pacific Source Limited ("Grand Pacific"), which was a wholly-owned subsidiary of GEM Global; and (ii) 170,000,000 underlying Shares held by Grand Pacific and 621,000,000 underlying Shares held by GEM Global. Accordingly, GEM Global is deemed to be interested in those Shares and underlying Shares held by Grand Pacific under the SFO.

   The Directors are unable to ascertain the interests of GEM Global as at the Latest Practicable Date, and confirm whether the interests of GEM Global as at the Latest Practicable Date, have been accurately shown. The interest of GEM Global as shown was disclosed in the corporate substantial notice of GEM Global filed on 3 April 2008 and recorded in the register of substantial shareholders maintained by the Company under Section 336 of the SFO. As set out in the Company's announcement dated 3 June 2008, the Company received default notification from GEM Global in relation to HK$540 Million Placing Convertible Bonds (as defined in such announcement). Theoretically, the interests of GEM Global should have decreased and updated corporate substantial notice should have been filed with the Company and the Stock Exchange by GEM Global as a result of such default. In addition to the default of the Placing Convertible Bonds mentioned above, as set out in the Company's announcements dated 3 June 2008 and 11 June 2008, on 10 June 2008, 230 million Consideration Shares (as defined in such announcements) were allotted and issued to Grand Pacific, the entire equity interests of which were acquired by Glimmer Stone Investments Limited ("Glimmer") from GEM Global on the same day, and 60 million Consideration Shares were transferred from Grand Pacific to GEM Global as consideration for such acquisition. Theoretically, the interests of GEM Global should have decreased and updated corporate substantial notice should have been filed with the Company and the Stock Exchange by GEM Global as a result of the acquisition of Grand Pacific by Glimmer mentioned above. The Company has not received any updated corporate substantial notice of GEM Global after 3 April 2008. However, the Directors cannot exclude the possibility that GEM Global may have acquired or disposed of any interests in shares or underlying shares of the Company after the above announcements.

   The Directors are also unable to ascertain the shareholding of GEM Global from the register of members of the Company as the information contained therein may not reflect the actual beneficial shareholdings of the shareholders (i.e. the registered shareholders may be have trustee or holding some shares of the Company on behalf of the others and this kind of interest is not required to be disclosed under the SFO).

3. The long positions in underlying Shares mentioned above represent the interests held by such Bondholders as at 31 December 2011 in the convertible bonds in the principal amount of HK$217,660,000 convertible into 314,490,000 new Shares issued by the Company on and subject to the terms of the Variation Agreement.

Save as disclosed above, the Directors were not aware of any other person (other than the directors and the chief executives of the Company) who, as at 31 December 2011, had, or was deemed to have, interests or short positions in the Shares or underlying Shares, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 & 3 of Part XV of the SFO.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year under review.

Major Customers and Suppliers

The percentages of cost of sales and sales for the year attributable to the Group's major suppliers and customers are as follows:

Cost of sales	
— the largest supplier	48.86%
— five largest suppliers combined	71.34%
Sales	
— the largest customer	34.20%
— five largest customers combined	91.03%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers mentioned above.

Compliance with the Code on Corporate Governance Practices

The Company has complied with most of the code provisions as set out in the Code of Corporate Governance Practices contained in Appendix 15 to the GEM Listing Rules during the year ended 31 December 2011. Details of compliance and deviation are set out in the Corporate Governance Report on pages 27 to 34.

Directors' Interest in Competing Business

None of the directors or their respective associates (as defined in GEM Listing Rules) had any interests in any business which compete or may compete with the Group or any other conflicts of interest with the Group.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Articles and there are no restrictions against such rights under the laws in the Cayman Islands.

Subsidiaries

Particulars of the Company's subsidiaries are set out in note 35 to the Financial Statements.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors as at the latest practicable date prior to the issue of this annual report, the Company has maintained a sufficient public float in accordance with the GEM Listing Rules.

Events after the Reporting Period

Subsequent to the end of the reporting period, the Group does not have any significant subsequent events.

Auditors

A resolution to re-appoint the retiring auditors, RSM Nelson Wheeler, will be proposed at the forthcoming AGM.

There is no change of auditors of the Company since its incorporation.

For and on behalf of the Board

Chan Nap Kee, Joseph
Chairman

Hong Kong, 30 March 2012

Corporate Governance Report

Code on Corporate Governance Practices

Except for Code Provision A2.1, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 on the GEM Listing Rules throughout the year.

The Code Provision A2.1 stipulates that the role of chairman and chief executive officer should be separated and should not be performed by the same individual.

From 2 November 2010 to the date of this report, Mr. Chan Nap Kee Joseph, chairman, took up the role of acting chief executive officer as well, which deviates from Code Provision A2.1.

Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions by directors ("Directors") of the Company on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year. The Company has also made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

The Board of Directors

Composition of the Board of Directors (the "Board")

As at 31 December 2011, the Board comprised eight directors, including four executive directors, namely Mr. Chan Nap Kee Joseph, Dr. Chow Pok Yu Augustine, Mr. Yang Yongcheng and Mr. Li Hong and four independent non-executive directors, namely Mr. Liew Swee Yean, Mr. Siu Siu Ling Robert, Dr. Wong Yun Kuen and Mr. Anderson Brian Ralph. Mr. Chan Nap Kee Joseph is the chairman and the acting chief executive officer of the Board. One of the independent non-executive directors has appropriate professional qualifications, or accounting or related financial management expertise. Biographical details of the directors are set out on pages 11 to 14 of this annual report.

Each of the independent non-executive directors has entered into a service contract with the Company for a term of one year, which may be extended for such period as agreed in writing between the director concerned and the Company.

There is no financial, business, family or other material or relevant relationship among the directors.

Independent Non-Executive Directors

The Company has received from each of its independent non-executive directors an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company is of the view that all the independent non-executive directors meet the independence guidelines as set out in Rule 5.09 of the GEM Listing Rules and still considers that they are independent.

Role and Function of the Board

The principal role of the Board is to formulate the operational strategies and establish an internal control system together with a high standard of corporate governance to ensure proper management of the Group. The daily operational matters of the Group are delegated by the Board to the management.

Board Meetings

Eleven regular Board meetings were held during the year ended 31 December 2011. The Board meetings involved the active participation of the directors either in person or through other electronic means of communication.

At least 14 days notice has been given to all directors of each of the Board meetings.

Attendance of each of the directors at Board meetings during the year ended 31 December 2011 is set out as follows:

Number of Board Meetings	**11**	
Executive Directors:		
Mr. Chan Nap Kee, Joseph *(Chairman and Acting Chief Executive Officer)*	11/11	100%
Dr. Chow Pok Yu, Augustine	11/11	100%
Mr. Yang Yongcheng	9/11	81.82%
Mr. Li Hong	9/11	81.82%
Independent Non-Executive Directors:		
Mr. Liew Swee Yean	8/11	72.73%
Mr. Siu Siu Ling, Robert	8/11	72.73%
Dr. Wong Yun Kuen	8/11	72.73%
Mr. Anderson Brian Ralph	8/11	72.73%
Average attendance rate	81.82%	

Internal Control

The Board has overall responsibilities for maintaining and reviewing the effectiveness of the system of internal control of the Group. The internal control system is to safeguard the assets of the Group and the shareholders' investment and to ensure the reliability of financial reporting as well as compliance with the relevant requirements of the GEM Listing Rules. During the year ended 31 December 2011, the Board had reviewed the effectiveness of the system of internal control of the Group. The review had covered all material aspects of internal control including financial, operational and compliance controls and risk management functions of the Group. The board also consider the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programme and budget.

Chairman and Chief Executive Officer

The Code Provision A2.1 stipulates that the role of chairman and chief executive officer should be separated and should not be performed by the same individual.

From 2 November 2010 to the date of this report, Mr. Chan Nap Kee Joseph, chairman, took up the role of acting chief executive officer as well, which deviates from Code Provision A2.1.

Remuneration Committee

Composition of the Remuneration Committee

The Code Provision B.1.1 stipulates that listed issuers should establish a remuneration committee with specific written terms of reference.

The Company has established the Remuneration Committee in March 2006. The existing Remuneration Committee comprised two executive directors and four independent non-executive directors, namely Mr. Chan Nap Kee Joseph, Dr. Chow Pok Yu Augustine, Mr. Liew Swee Yean, Mr. Siu Siu Ling Robert, Dr. Wong Yun Kuen and Mr. Anderson Brian Ralph. Dr. Wong Yun Kuen is the chairman of the Remuneration Committee.

The Board has adopted the terms of reference of the Remuneration Committee in alignment with the mandatory provisions as set out in the Code Provision B.1.3.

Role and Function of the Remuneration Committee

The role and function of the Remuneration Committee includes making recommendations to the Board on Company's policy and structure for all remuneration packages of directors and senior management, establishing formal and transparent procedures for formulating policy on such remuneration packages and determining the specific remuneration packages of all executive directors and senior management staff of the Company.

Remuneration Policy

The formulation of the Group's remuneration strategy and policy is based on the principles of equity and market competitiveness so as to drive staff to work towards the mission of the Group and to retain talents. As a long-term incentive plan and with the aim at motivating directors and employees in the continued pursuit of the Company's goal and objectives, the Company has adopted a share option scheme under which the Company may grant share options to the directors/employees to subscribe for the shares of the Company.

Remuneration Committee Meetings

The Remuneration Committee has held two meetings during the year ended 31 December 2011. During the meetings, the Remuneration Committee had reviewed and approved the increment in salary, housing allowance, bonus payment and share options for the executive directors and the senior management by way of resolutions passed by all committee members. However, the executive directors did not participate in determining their own remuneration.

During the year under review, the Remuneration Committee had undertaken the following duties:

(i) approved the salary, housing allowance and bonus payment for an executive director and the senior management of the Company; and

(ii) authorised the Board to grant share options to the executive directors and the senior management of the Company in accordance with the rules of the share option scheme of the Company.

Attendance of each of the directors at the Remuneration Committee meetings during the year ended 31 December 2011 is set out as follows:

Number of Remuneration Committee Meetings		**2**	
Dr. Wong Yun Kuen *(Committee Chairman)*	2/2		100%
Mr. Chan Nap Kee, Joseph	2/2		100%
Dr. Chow Pok Yu, Augustine	2/2		100%
Mr. Liew Swee Yean	2/2		100%
Mr. Siu Siu Ling, Robert	2/2		100%
Mr. Anderson Brian Ralph	1/2		50%
Average attendance rate		91.67%	

Nomination of Directors

The Company does not have a Nomination Committee, and the power to nominate or appoint additional directors is vested on the Board according to the Articles, in addition to the power of the shareholders of the Company to nominate any person to become a director in accordance with the Articles and the laws of the Cayman Islands.

In assessing the nomination of new directors, the Board has taken into consideration the nominee's qualification, ability and potential contributions to the Company. The Company also follows a formal, fair and transparent procedure for the appointment of new directors to the Board. The Board constantly reviews its own structure, size and composition and when necessary instructs the management of the Company to identify suitably qualified candidates which then makes recommendations to the Board for decisions.

During the year ended 31 December 2011, the Board has reviewed its own structure, size and composition and considered one executive director was appointed in existing Board composition.

The following is a summary of work regarding nominations of directors performed by the Board for the year ended 31 December 2011:

(i) approved the list of retiring directors for re-election at the annual general meeting;

(ii) reviewed the independence of all independent non-executive directors; and

(iii) reviewed its own structure, size and composition; and

(iv) instructed the management of the Company to identify suitable candidates to fill casual vacancies on the Board and reviewed such nominations.

Auditors' Remuneration

For the year ended 31 December 2011, the fee paid or payable to external auditors in respect of audit and non-audit services amounted to HK$1,915,955 and HK$1,126,500 respectively.

Preparation of Accounts

The Directors are responsible for overseeing the preparation of the annual accounts which give a true and fair view of the Group's state of affairs of the results and cash flows for the year under review. In preparing the accounts for the year ended 31 December 2011, the directors have approved adoption of all the applicable standards and interpretations of International Financial Reporting Standards ("IFRSs").

The quarterly, interim and annual results of the Company are announced in a timely manner after the end of the relevant periods.

Audit Committee

Composition of the Audit Committee

The Company established the audit committee ("Audit Committee") on 9 December 2003 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and Code Provision C3.3 of the Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group.

The Audit Committee comprises four independent non-executive directors, namely Mr. Liew Swee Yean, Mr. Siu Siu Ling Robert, Dr. Wong Yun Kuen and Mr. Anderson Brian Ralph, and Mr. Liew Swee Yean is the chairman of the Audit Committee.

During the year under review, the audit committee held five meetings to review and supervise the financial reporting process. The results for the year have been reviewed by the Audit Committee who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and adequate disclosures have been made.

Role and Function of the Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, Rules 5.28 to 5.33 of the GEM Listing Rules and Code Provision C.3.3 of the Code.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group and provide an important link between the Board and the Company's auditors on those matters within the scope of the Group's audit. It also reviews the effectiveness of the external and internal audit and conducts risk evaluation.

The Audit Committee is provided with sufficient resources to discharge its responsibilities and is supported by the Finance Department of the Company. The Audit Committee is accountable to the Board.

Audit Committee Meetings

During the year ended 31 December 2011, the Audit Committee has held five meetings to review and supervise the financial reporting process and Audit Committee has reviewed the quarterly, interim and annual results and system of internal controls. The Audit Committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made. The Audit Committee also carried out and discharged its other duties as set out in the Code.

Attendance of each of the independent non-executive directors at the Audit Committee meetings during the year ended 31 December 2011 is set out as follows:

Number of Audit Committee Meetings		**5**	
Mr. Liew Swee Yean *(Committee Chairman)*	5/5		100%
Mr. Siu Siu Ling, Robert	5/5		100%
Dr. Wong Yun Kuen	5/5		100%
Mr. Anderson Brian Ralph	5/5		100%
Average attendance rate		100%	

During the year under review, the Audit Committee had undertaken the following duties:

(i) made recommendations to the Board on the appointment, reappointment or removal of the external auditors (the "Auditors") and approved the audit fees and terms of engagement of the Auditors, or any questions of resignation or dismissal of the Auditors;

(ii) reviewed the quarterly, interim and annual financial statements prior to recommending them to the Board for approval;

(iii) reviewed the Auditors' management letter and the management's response thereto, and to ensure that recommendations made by the Auditors are carried out;

(iv) reviewed the operation and effectiveness of the Company's financial control, internal control and risk management systems;

(v) reviewed the appropriateness of reporting and accounting policies and disclosure practices; and

(vi) reviewed the work of the Internal Audit Department, ensuring coordination between the Internal Audit Department and the Auditors, and reviewing and monitoring the effectiveness of the internal audit function.

During the year under review, the Board, through the Audit Committee, reviewed the effectiveness of the Group's system of internal control over financial, operational and compliance issues, broad-based risk management processes, and physical and information systems security. To formalize the annual review of internal control system, the Audit Committee made reference to the globally recognised framework with modifications to include some controls which are specific to the Group's operation. The Audit Committee concluded that, in general, the Group has set up a sound control environment and installed necessary control mechanisms to monitor and correct non-compliance. The Board, through the review of the Audit Committee, is satisfied that the Group has fully complied with the Code Provisions on internal controls as set forth in the Code for the year ended 31 December 2011.

The Group's financial statements for the year ended 31 December 2011 have been reviewed by the Audit Committee, who is of the opinion that such statements comply with applicable accounting standard and legal requirements, and that adequate disclosures have been made.

Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Group.

The statement by the Auditors of the Company about their reporting responsibilities is set out on page 35 of this report.

Independent Auditor's Report

RSM Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

TO THE SHAREHOLDERS OF
KAISUN ENERGY GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Kaisun Energy Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 96, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public of Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011, and of the Group's results and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

30 March 2012

Consolidated Income Statement

for the year ended 31 December 2011

	Note	Year ended 31 December 2011 HK$	Period from 1 April 2010 to 31 December 2010 HK$ (restated)
Continuing operations			
Turnover	7	6,058,165	—
Cost of goods sold		(18,286,145)	—
Gross loss		(12,227,980)	—
Other income	8	18,113,303	390,575
Administrative and other operating expenses		(54,813,146)	(24,373,912)
Loss from operations		(48,927,823)	(23,983,337)
Finance costs	9	(21,286,609)	(16,244,593)
Impairment loss on fixed assets	17	(4,608,388)	—
Impairment loss on goodwill	18	(115,955,924)	—
Impairment loss on intangible assets	19	(28,720,052)	—
Loss before tax		(219,498,796)	(40,227,930)
Income tax expense	10	—	—
Loss for the year/period from continuing operations		(219,498,796)	(40,227,930)
Discontinued operations			
(Loss)/profit for the year/period from discontinued operations	11	(840,274,230)	11,989,855
Loss for the year/period	12	(1,059,773,026)	(28,238,075)
Attributable to:			
Owners of the Company			
Loss from continuing operations		(208,527,064)	(40,227,930)
(Loss)/profit from discontinued operations		(839,183,705)	8,392,898
Loss attributable to owners of the Company		(1,047,710,769)	(31,835,032)
Non-controlling interests			
Loss from continuing operations		(10,971,732)	—
(Loss)/profit from discontinued operations		(1,090,525)	3,596,957
(Loss)/profit attributable to non-controlling interests		(12,062,257)	3,596,957
		(1,059,773,026)	(28,238,075)
Loss per share (cents)	15		
From continuing and discontinued operations			
— basic		(42.79)	(1.52)
— diluted		N/A	N/A
From continuing operations			
— basic		(8.52)	(1.92)
— diluted		N/A	N/A

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

	Year ended 31 December 2011 HK$	Period from 1 April 2010 to 31 December 2010 HK$
Loss for the year/period	**(1,059,773,026)**	(28,238,075)
Other comprehensive income for the year/period, net of tax		
Exchange differences on translating foreign operations	**106,223,023**	72,593,019
Exchange differences reclassified to profit or loss on disposal of a subsidiary	**(134,413,083)**	—
Total comprehensive income for the year/period	**(1,087,963,086)**	44,354,944
Attributable to:		
Owners of the Company	**(1,110,351,316)**	18,978,904
Non-controlling interests	**22,388,230**	25,376,040
	(1,087,963,086)	44,354,944

Consolidated Statement of Financial Position

at 31 December 2011

	Note	2011 HK$	2010 HK$
Non-current assets			
Fixed assets	17	25,705,562	101,102,623
Goodwill	18	—	—
Intangible assets	19	159,930,659	3,199,018,096
Deposits paid for construction in progress		—	221,707,925
Available-for-sale financial assets	20	71,173	—
		185,707,394	3,521,828,644
Current assets			
Inventories	21	5,009,356	142,171
Trade and bills receivables	22	133,981	30,570,552
Deposits, prepayments and other receivables	23	699,850,554	75,201,368
Financial assets at fair value through profit or loss	24	1,550,000	—
Bank and cash balances	25	294,846,882	242,442,501
		1,001,390,773	348,356,592
Current liabilities			
Other payables and accruals	26	16,322,476	26,911,753
Deposits received and receipts in advance		—	19,558,990
Bank loan	27	—	5,856,250
Due to a former owner of a subsidiary	29	50,976,026	—
Current tax liabilities		—	2,961,501
		67,298,502	55,288,494
Net current assets		934,092,271	293,068,098
Total assets less current liabilities		1,119,799,665	3,814,896,742
Non-current liabilities			
Bank loan	27	—	345,518,750
Convertible bonds	28	206,453,478	186,211,165
Due to a former owner of a subsidiary	29	16,992,009	—
Deferred tax liabilities	30	39,141,749	796,400,332
		262,587,236	1,328,130,247
NET ASSETS		857,212,429	2,486,766,495

Consolidated Statement of Financial Position

at 31 December 2011

	Note	2011 HK$	2010 HK$
Capital and reserves			
Share capital	31	26,120,057	21,143,838
Reserves	33	795,759,156	1,709,271,622
Equity attributable to owners of the Company		821,879,213	1,730,415,460
Non-controlling interests		35,333,216	756,351,035
TOTAL EQUITY		857,212,429	2,486,766,495

Approved by the Board of Directors on 30 March 2012.

Chan Nap Kee, Joseph
Director

Chow Pok Yu, Augustine
Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

	Attributable to owners of the Company								
	Share capital HK$	**Share premium** *(note 33(c)(i))* HK$	**Foreign currency translation reserve** *(note 33(c)(ii))* HK$	**Share-based payment reserve** *(note 33(c)(iii))* HK$	**Convertible bonds reserve** *(note 4(m))* HK$	**Retained profits/ (accumulated losses)** HK$	**Total** HK$	**Non-controlling interests** HK$	**Total equity** HK$
At 1 April 2010	20,056,750	889,427,506	3,265,380	22,244,121	138,552,786	568,854,606	1,642,401,149	730,974,995	2,373,376,144
Total comprehensive income for the period	—	—	50,813,936	—	—	(31,835,032)	18,978,904	25,376,040	44,354,944
Share-based payments	—	—	—	9,501,293	—	—	9,501,293	—	9,501,293
Share options forfeited	—	—	—	(2,380,648)	—	2,380,648	—	—	—
Issue of shares for replacement convertible bonds converted *(note 31)*	1,069,000	91,877,184	—	—	(34,751,459)	—	58,194,725	—	58,194,725
Issue of shares on exercise of share options *(note 31)*	18,088	1,875,846	—	(554,545)	—	—	1,339,389	—	1,339,389
Changes in equity for the period	1,087,088	93,753,030	50,813,936	6,566,100	(34,751,459)	(29,454,384)	88,014,311	25,376,040	113,390,351
At 31 December 2010 and 1 January 2011	21,143,838	983,180,536	54,079,316	28,810,221	103,801,327	539,400,222	1,730,415,460	756,351,035	2,486,766,495
Total comprehensive income for the year	—	—	(62,640,547)	—	—	(1,047,710,769)	(1,110,351,316)	22,388,230	(1,087,963,086)
Share-based payments	—	—	—	10,251,000	—	—	10,251,000	—	10,251,000
Share options forfeited	—	—	—	(3,910,462)	—	3,910,462	—	—	—
Issue of shares for acquisition of subsidiaries *(note 31)*	4,228,767	171,265,084	—	—	—	—	175,493,851	—	175,493,851
Issue of shares on exercise of share options *(note 31)*	747,452	20,979,582	—	(5,656,816)	—	—	16,070,218	—	16,070,218
Arising on acquisition of subsidiaries	—	—	—	—	—	—	—	46,304,948	46,304,948
Disposal of a subsidiary	—	—	—	—	—	—	—	(789,710,997)	(789,710,997)
Changes in equity for the year	4,976,219	192,244,666	(62,640,547)	683,722	—	(1,043,800,307)	(908,536,247)	(721,017,819)	(1,629,554,066)
At 31 December 2011	26,120,057	1,175,425,202	(8,561,231)	29,493,943	103,801,327	(504,400,085)	821,879,213	35,333,216	857,212,429

Consolidated Statement of Cash Flows

for the year ended 31 December 2011

	Year ended 31 December 2011 HK$	Period from 1 April 2010 to 31 December 2010 HK$
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(1,059,773,026)	(24,783,855)
Adjustments for:		
Depreciation	7,171,675	1,035,422
Amortisation of intangible assets	10,284,297	—
Allowance of trade receivables	29,102	—
Impairment loss on fixed assets	4,608,388	—
Impairment loss on goodwill	115,955,924	—
Impairment loss on intangible assets	28,720,052	—
Reversal of contingent consideration for acquisition of subsidiaries	(10,523,385)	—
Fair value loss on financial assets at fair value through profit or loss	527,493	—
(Gain)/loss on disposal of fixed assets	(5,886,766)	333,668
Loss on disposal of a subsidiary	836,639,147	—
Loss on disposal of available-for-sale financial assets	—	2,851,965
Equity-settled share-based payments	10,251,000	9,501,293
Finance costs	21,286,609	16,244,593
Interest income	(1,709,671)	(791,259)
Operating (loss)/profit before working capital changes	(42,419,161)	4,391,827
Decrease/(increase) in inventories	1,710,238	(53,631)
Increase in trade and bills receivables	(12,225,406)	(24,777,021)
Decrease/(increase) in deposits, prepayments and other receivables	13,934,491	(55,567,198)
Increase/(decrease) in other payables and accruals	87,658,899	(5,037,134)
(Decrease)/increase in deposits received and receipts in advance	(19,558,990)	3,808,802
Cash generated from/(used in) operations	29,100,071	(77,234,355)
Interest paid	(21,893,550)	(15,944,756)
Income tax paid	(5,088,322)	(880,065)
Net cash generated from/(used in) operating activities	2,118,199	(94,059,176)

Consolidated Statement of Cash Flows

for the year ended 31 December 2011

	Notes	Year ended 31 December 2011 HK$	Period from 1 April 2010 to 31 December 2010 HK$
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**1,709,671**	791,259
Purchases of fixed assets		**(57,678,192)**	(51,335,897)
Additions of deposits paid for construction in progress		**(105,163,647)**	(66,183,378)
Additions of intangible assets		**(271,210)**	—
Proceeds from disposal of fixed assets		**9,235,387**	368,475
Purchase of available-for-sale financial assets		**(71,173)**	—
Purchase of financial assets at fair value through profit or loss		**(2,077,493)**	—
Net proceeds from disposal of available-for-sale financial assets		**—**	739,220
Acquisition of subsidiaries	36(a)	**(19,431,646)**	—
Disposal of a subsidiary	36(b)	**204,069,368**	—
Net cash generated from/(used in) investing activities		**30,321,065**	(115,620,321)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment on replacement convertible bonds converted		**—**	(11,733)
Proceeds from shares issued on exercise of share options		**16,070,218**	1,339,389
Repayment of bank loan		**(5,992,542)**	—
Net cash generated from financing activities		**10,077,676**	1,327,656
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**42,516,940**	(208,351,841)
Effect of foreign exchange rate changes		**9,887,441**	11,055,685
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD		**242,442,501**	439,738,657
CASH AND CASH EQUIVALENTS AT END OF YEAR/ PERIOD		**294,846,882**	242,442,501
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**294,846,882**	242,442,501

Notes to the Financial Statements

for the year ended 31 December 2011

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is 5/F., 31C–D Wyndham Street, Central, Hong Kong. The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 35 to the financial statements.

2. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group's financial statements for the year ended 31 December 2011 is the first set annual financial statements that comply with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board. The Group has applied International Financial Reporting Standard ("IFRS") 1 in preparing these consolidated financial statements and there are no material differences between the consolidated financial statements presented under the IFRSs and the consolidated financial statements presented under Hong Kong Financial Reporting Standards.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised IFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2011. IFRSs comprise IFRS; International Accounting Standards; and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new IFRSs but is not yet in a position to state whether these new IFRSs would have a material impact on its results of operations and financial position.

4. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with IFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments which are carried at their fair values.

The preparation of financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas where assumptions and estimates are significant to these financial statements, are disclosed in note 5 to the financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated income statement and consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, available-for-sale investment), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy (t) below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

— Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of fixed assets is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	2%–4.5%
Leasehold improvements	20%–30%
Plant and machinery	9%–20%
Office equipment	15%–25%
Furniture and fixtures	10%–20%
Motor vehicle	10%–30%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(e) Leases

Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(f) Intangible assets

Intangible assets acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure is expensed as incurred.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at the end of each reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Discontinued operations

A discontinued operation is a component of the Group, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises:

— The post-tax profit or loss of the discontinued operation; and

— The post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(i) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

Investments are classified as either financial assets at fair value through profit or loss or available-for-sale financial assets.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either investments classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in profit or loss.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale financial assets are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in profit or loss if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(l) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(m) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Financial liabilities and equity instruments *(Continued)*

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Convertible loans

Convertible loans which entitle the holder to convert the loans into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loans and the fair value assigned to the liability component, representing the embedded option for the holder to convert the loans into equity of the Group, is included in equity as convertible bonds reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and equity components of the convertible loans based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenues from the sales of manufactured goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(p) Share-based payments

The Group issues equity-settled share-based payments to certain directors, employees and consultants.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Equity-settled share-based payments to consultants are measured at the fair value of the services rendered or if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and is recognised as an expense.

(q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

(B) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(t) Impairment of assets

Intangible assets that have an indefinite useful life or not yet available for use are reviewed annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Impairment of assets *(Continued)*

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, deferred tax assets, investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(v) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Fixed assets and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's fixed assets. This estimate is based on the historical experience of the actual useful lives and residual values of fixed assets of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the end of the reporting period was HK$Nil after an impairment loss of HK$115,955,924 was recognised during 2011. Details of the impairment loss calculation are provided in note 18 to financial statements.

Impairment of fixed assets and intangible assets

The Group assesses whether there are any indicators of impairment for fixed assets and intangible assets at the end of each reporting period. Fixed assets and intangible assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, the directors must estimate the expected future cash flows from the assets or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of fixed assets and intangible assets at the end of the reporting period were HK$25,705,562 and HK$159,930,659 respectively after impairment losses of HK$4,608,388 and HK$28,720,052 were recognised during 2011 respectively. Details of the impairment losses calculation are provided in note 18 to financial statements.

Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Fair value of contingent consideration for acquisition of subsidiaries

As mentioned in note 36(a) of the financial statements, the Group is required to pay contingent consideration for acquisition of subsidiaries during the year upon certain conditions are satisfied. The Group appointed an independent professional valuer to assess the fair values of the contingent consideration. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the probability of satisfactory of the conditions and payment of the contingent consideration. If the estimation on the fair value of the contingent consideration is changed, the carrying amount of goodwill as at the acquisition date and the reversal of contingent consideration when the conditions are not satisfied would be affected.

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, price risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in HK$, United States dollars ("US$"), Renminbi ("RMB") and Tajikistan Somoni ("TJS"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2011, if the HK$ had weakened 0.5 per cent against the US$ with all other variables held constant, consolidated loss after tax for the year would have been HK$283,766 higher (period from 1 April 2010 to 31 December 2010: HK$32,307 lower), arising mainly as a result of the foreign exchange loss on amount due to a former owner of a subsidiary and other receivables denominated in US$. If the HK$ had strengthened 0.5 per cent against the US$ with all other variables held constant, consolidated loss after tax for the year would have been HK$283,766 lower (period from 1 April 2010 to 31 December 2010: HK$32,307 higher), arising mainly as a result of the foreign exchange gain on amount due to a former owner of a subsidiary and other receivables denominated in US$.

At 31 December 2011, if the HK$ had weakened 0.5 per cent against the RMB with all other variables held constant, consolidated loss after tax for the year would have been HK$3,785,478 lower (period from 1 April 2010 to 31 December 2010: HK$Nil), arising mainly as a result of the foreign exchange gain on bank and cash balances and other receivables denominated in RMB. If the HK$ had strengthened 0.5 per cent against the RMB with all other variables held constant, consolidated loss after tax for the year would have been HK$3,785,478 higher (period from 1 April 2010 to 31 December 2010: HK$Nil), arising mainly as a result of the foreign exchange loss on bank and cash balances and other receivables denominated in RMB.

(b) Price risk

The Group's financial assets at fair value through profit or loss are measured at fair value at the end of each reporting period. Therefore, the Group is exposed to equity security price risk. The directors manage this exposure by maintaining a portfolio of investments with different risk profiles.

At 31 December 2011, if the share prices of the investments increase/decrease by 10%, consolidated loss after tax for the year would have been approximately HK$155,000 (period from 1 April 2010 to 31 December 2010: HK$Nil) higher/lower, arising as a result of the fair value gain/loss of the investments.

(c) Credit risk

The carrying amount of the bank and cash balances, trade and other receivables included in the statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The credit risk on bank and cash balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year HK$	Between 1 and 2 years HK$	Between 2 and 5 years HK$	Over 5 years HK$
At 31 December 2011				
Other payables and accruals	16,322,476	—	—	—
Convertible bonds	—	—	250,085,960	—
Due to a former owner of a subsidiary	52,462,826	17,657,629	—	—
At 31 December 2010				
Other payables and accruals	26,911,753	—	—	—
Convertible bonds	—	—	250,085,960	—
Bank loan	26,868,475	38,218,298	278,473,538	95,787,790

(e) Interest rate risk

The Group's exposure to interest-rate risk arises from its bank deposits and bank borrowings. These deposits and borrowings bear interests at variable rates varied with the then prevailing market condition.

At 31 December 2011, if interest rates at that date had been 10 basis points lower with all other variables held constant, consolidated loss after tax for the year would have been HK$320,387 (period from 1 April 2010 to 31 December 2010: HK$82,559) higher, arising mainly as a result of lower interest income on bank deposits. If interest rates had been 50 basis points higher, with all other variables held constant, consolidated loss after tax for the year would have been HK$1,601,937 (period from 1 April 2010 to 31 December 2010: HK$412,797) lower, arising mainly as a result of higher interest income on bank deposits.

(f) Categories of financial instruments at 31 December 2011

	2011 HK$	2010 HK$
Financial assets		
Financial assets at fair value through profit or loss designated as such upon initial recognition	**1,550,000**	—
Available-for-sale financial assets	**71,173**	—
Loans and receivables (including cash and cash equivalents)	**994,430,160**	341,482,162
Financial liabilities		
Financial liabilities at amortised cost	**290,743,989**	564,497,918

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(g) Fair values

Except as disclosed in note 20 to the financial statements, the carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

The following disclosures of fair value measurements use a fair value hierarchy which has 3 levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Disclosures of level in fair value hierarchy at 31 December 2011:

Description	**Fair value measurement using: Level 1 HK$**	**Level 2 HK$**	**Level 3 HK$**	**Total 2011 HK$**
Financial assets at fair value through profit or loss				
Equity investments	**1,550,000**	**—**	**—**	**1,550,000**

Description	Fair value measurement using: Level 1 HK$	Level 2 HK$	Level 3 HK$	Total 2010 HK$
Financial assets at fair value through profit or loss				
Equity investments	—	—	—	—

7. TURNOVER

	Year ended 31 December 2011 HK$	Period from 1 April 2010 to 31 December 2010 HK$
Turnover		
Sales of goods	**62,679,667**	59,618,521
Representing:		
Continuing operations	**6,058,165**	—
Discontinued operations *(note 11)*	**56,621,502**	59,618,521
	62,679,667	59,618,521

8. OTHER INCOME

	Year ended 31 December 2011 HK$	Period from 1 April 2010 to 31 December 2010 HK$
Interest income	**1,709,671**	791,259
Gain on disposal of fixed assets	**5,886,766**	—
Reversal of contingent consideration for acquisition of subsidiaries *(note 36(a))*	**10,523,385**	—
Sundry income	**203,705**	18,331
	18,323,527	809,590
Representing:		
Continuing operations	**18,113,303**	390,575
Discontinued operations *(note 11)*	**210,224**	419,015
	18,323,527	809,590

9. FINANCE COSTS

	Year ended 31 December 2011 HK$	Period from 1 April 2010 to 31 December 2010 HK$
Interest on bank loans and overdrafts	**21,893,550**	15,944,756
Amount capitalised	**(21,893,550)**	(15,944,756)
	—	—
Interest on convertible bonds	**20,242,313**	16,244,593
Interest on loan from a former owner of a subsidiary	**1,044,296**	—
	21,286,609	16,244,593
Representing:		
Continuing operations	**21,286,609**	16,244,593

10. INCOME TAX EXPENSE

	Year ended 31 December 2011 HK$	Period from 1 April 2010 to 31 December 2010 HK$
Current tax — PRC enterprise income tax		
Provision for the year/period	**—**	3,454,220
Representing:		
Discontinued operations *(note 11)*	**—**	3,454,220

10. INCOME TAX EXPENSE *(Continued)*

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the year/period.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

Pursuant to relevant laws and regulations in the People's Republic of China (the "PRC"), the tax rate applicable to the subsidiary in the PRC was 25%.

The reconciliation between the income tax expense and the product of loss before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	Year ended 31 December 2011 HK$	Period from 1 April 2010 to 31 December 2010 HK$
Loss before tax	**(1,059,773,026)**	(24,783,855)
Tax at the domestic income tax rate of 16.5%	**(174,862,549)**	(4,089,336)
Tax effect of income that is not taxable	**(5,207,804)**	(73,788)
Tax effect of expenses that are not deductible	**176,548,264**	6,711,396
Tax effect of tax loss not recognised	**3,211,185**	—
Tax effect of utilisation of tax loss not previously recognised	**—**	(173,657)
Effect of different tax rates of subsidiaries operating in other jurisdiction	**310,904**	1,198,409
Under-provision in respect of current year/period	**—**	(118,804)
Income tax expense	**—**	3,454,220

11. DISCONTINUED OPERATIONS

Pursuant to an agreement dated 15 June 2011 ("Agreement") entered into between the Group and an independent third party (the "Purchaser"), the Group disposed of its entire 70% equity interest in 內蒙古蒙西礦業有限公司 (Inner Mongolia Mengxi Minerals Limited) ("Mengxi Minerals"). Mengxi Minerals is engaged in exploitation of coal and coal processing in the PRC during the year. The disposal was completed on 22 December 2011 and the Group discontinued its exploitation of coal and coal processing in the PRC.

The (loss)/profit for the year/period from the discontinued operations is analysed as follows:

	Year ended 31 December 2011 HK$	Period from 1 April 2010 to 31 December 2010 HK$
(Loss)/profit of discontinued operations	**(3,635,083)**	11,989,855
Loss on disposal of discontinued operations *(note 36(b))*	**(836,639,147)**	—
	(840,274,230)	11,989,855

The results of the discontinued operations for the period from 1 January 2011 to 22 December 2011, which have been included in the consolidated profit or loss, are as follows:

	Period from 1 January 2011 to 22 December 2011 HK$	Period from 1 April 2010 to 31 December 2010 HK$
Turnover	**56,621,502**	59,618,521
Cost of goods sold	**(39,357,971)**	(30,765,265)
Gross profit	**17,263,531**	28,853,256
Other income	**210,224**	419,015
Selling and distribution costs	**(149,871)**	(120,524)
Administrative and other operating expenses	**(20,958,967)**	(13,707,672)
(Loss)/profit from operations	**(3,635,083)**	15,444,075
Income tax expense	**—**	(3,454,220)
(Loss)/profit for the year/period	**(3,635,083)**	11,989,855

During the year, the disposed subsidiary received approximately HK$61,803,000 (period from 1 April 2010 to 31 December 2010: paid approximately HK$17,207,000) in respect of operating activities, paid approximately HK$184,077,000 (period from 1 April 2010 to 31 December 2010: HK$126,668,000) in respect of investing activities and paid approximately HK$5,993,000 (period from 1 April 2010 to 31 December 2010: received approximately HK$567,000) in respect of financing activities.

Pursuant to the Agreement, tax charge arose on loss on disposal of the discontinued operations amounted to RMB45,555,000 was borne by the Purchaser.

12. LOSS FOR THE YEAR/PERIOD

The Group's loss for the year/period is stated after charging/(crediting) the following:

	Year ended 31 December 2011 HK$	Period from 1 April 2010 to 31 December 2010 HK$
Auditor's remuneration	**1,915,955**	653,025
Depreciation	**7,171,675**	1,035,422
Allowance of trade receivables	**29,102**	—
Amortisation of intangible assets	**10,284,297**	—
Fair value loss on financial assets at fair value through profit or loss (designated upon initial recognition)	**527,493**	—
Loss on disposal of available-for-sale financial assets	**—**	2,851,965
Loss on disposal of fixed assets	**—**	333,668
Written off of deposits paid *(note)*	**—**	11,307,910
Operating lease rentals in respect of land and buildings	**995,019**	207,000
Other equity-settled share-based payments	**1,140,244**	9,501,293
Staff costs (including directors' emoluments *(note 13)*)		
Basic salaries, bonuses, allowances and benefits in kind	**35,498,451**	6,917,543
Equity-settled share-based payments	**9,110,756**	—
Retirement benefits scheme contributions	**450,252**	390,607
Net exchange losses/(gain)	**2,328,174**	(56,022)

Note: Written off of deposits paid related to the professional fee and various expenses incurred for proposed acquisition of oil and gas exploration and production business in Russia terminated during the period from 1 April 2010 to 31 December 2010.

13. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

Name of director	Fees HK$	Salaries, allowances and benefits in kind HK$	Discretionary bonus HK$	Share-based payments HK$	Retirement benefits scheme contributions HK$	Total emoluments HK$
Executive directors						
CHAN Nap Kee, Joseph	—	1,500,000	—	1,945,639	—	3,445,639
Dr. CHOW Pok Yu, Augustine	—	1,200,000	—	1,945,639	—	3,145,639
YANG Yongcheng	—	782,464	—	766,827	12,000	1,561,291
LI Hong	—	650,403	—	1,945,639	12,000	2,608,042
Independent non-executive directors						
LIEW Swee Yean	60,000	—	—	194,564	—	254,564
SIU Siu Ling, Robert	60,000	—	—	194,564	—	254,564
Dr. WONG Yun Kuen	60,000	—	—	194,564	—	254,564
ANDERSON Brian Ralph	60,000	—	—	194,564	—	254,564
Total for the year ended 31 December 2011	240,000	4,132,867	—	7,382,000	24,000	11,778,867

Name of director	Fees HK$	Salaries, allowances and benefits in kind HK$	Discretionary bonus HK$	Share-based payments HK$	Retirement benefits scheme contributions HK$	Total emoluments HK$
Executive directors						
YEAP Soon P. Jonathan (resigned on 2 November 2010)	—	2,450,000	—	—	7,000	2,457,000
YANG Geyan (resigned on 16 August 2010)	—	—	—	—	—	—
CHAN Nap Kee, Joseph	—	—	—	—	—	—
Dr. CHOW Pok Yu, Augustine	—	—	—	—	—	—
YANG Yongcheng	—	561,187	—	—	9,000	570,187
LI Hong (appointed on 3 September 2010)	—	133,539	—	—	4,000	137,539
Independent non-executive directors						
LIEW Swee Yean	18,750	—	—	—	—	18,750
SIU Siu Ling, Robert	18,750	—	—	—	—	18,750
Dr. WONG Yun Kuen	18,750	—	—	—	—	18,750
ANDERSON Brian Ralph	18,750	—	—	—	—	18,750
Total for the period from 1 April 2010 to 31 December 2010	75,000	3,144,726	—	—	20,000	3,239,726

Other than the accrued discretionary bonus of HK$9,000,000 for the year ended 31 March 2010 waived by three executive directors during the period from 1 April 2010 to 31 December 2010, there was no arrangement under which a director waived or agreed to waive any emoluments during the year.

96,266,840 (period from 1 April 2010 to 31 December 2010: Nil) options were granted to directors under the share option scheme during the year.

13. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five highest paid individuals in the Group during the year included three (period from 1 April 2010 to 31 December 2010: two) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (period from 1 April 2010 to 31 December 2010: three) individuals are set out below:

	Year ended 31 December 2011 HK$	Period from 1 April 2010 to 31 December 2010 HK$
Basic salaries, bonuses, allowances and benefits in kind	**8,094,615**	1,485,217
Retirement benefits scheme contributions	**12,000**	26,000
	8,106,615	1,511,217

The emoluments of five highest paid individuals (including directors) fell within the following bands:

	Year ended 31 December 2011 HK$	Period from 1 April 2010 to 31 December 2010 HK$
Nil to HK$1,000,000	**—**	4
HK$2,000,001 to HK$2,500,000	**—**	1
HK$2,500,001 to HK$3,000,000	**1**	—
HK$3,000,001 to HK$3,500,000	**2**	—
HK$3,500,001 to HK$4,000,000	**1**	—
HK$4,000,001 to HK$4,500,000	**1**	—
	5	5

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

14. DIVIDEND

No dividend has been paid or declared by the Company during the year (period from 1 April 2010 to 31 December 2010: HK$Nil).

15. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the following:

	Year ended 31 December 2011 HK$	Period from 1 April 2010 to 31 December 2010 HK$
Loss		
Continuing and discontinued operations		
Loss for the purpose of calculating basic loss per share	**(1,047,710,769)**	(31,835,032)
Continuing operations		
Loss for the purpose of calculating basic loss per share	**(208,527,064)**	(40,227,930)

	Year ended 31 December 2011	Period from 1 April 2010 to 31 December 2010
Number of shares		
Issued ordinary shares at beginning of the year/period	**2,114,383,750**	2,005,675,000
Effect of consideration shares issued	**326,715,736**	—
Effect of conversion of replacement convertible bonds	**—**	86,475,782
Effect of exercise of options	**7,589,213**	1,248,805
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**2,448,688,699**	2,093,399,587

No diluted loss per share are presented as the Company did not have any dilutive potential ordinary sharing during the year ended 31 December 2011 and during the period from 1 April 2010 to 31 December 2010.

From discontinued operations

Basic loss per share from the discontinued operations is HK34.27 cents (period from 1 April 2010 to 31 December 2010: Basic earnings per share of HK0.40 cents) for the year, based on the loss for the year from discontinued operations attributable to owners of the Company of HK$839,183,705 (period from 1 April 2010 to 31 December 2010: profit of HK$8,392,898) and the denominator used is the same as that detailed in the table above for basic loss per share.

16. RETIREMENT BENEFIT SCHEMES

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of contribution of HK$1,000 per employee and vest fully with employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary established in the PRC are members of a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of this subsidiary. The only obligation of this subsidiary with respect to the central pension scheme is to meet the required contributions under the scheme.

17. FIXED ASSETS

	Buildings HK$	Leasehold improvements HK$	Plant and machinery HK$	Office equipment HK$	Furniture and fixtures HK$	Motor vehicles HK$	Construction in progress HK$	Total HK$
Cost								
At 1 April 2010	238,025	27,900	744,225	517,810	19,660	3,851,253	28,331,732	33,730,605
Additions	27,624,128	—	13,650,990	598,673	—	4,151	25,402,711	67,280,653
Disposals	—	—	—	(16,350)	—	(1,061,993)	—	(1,078,343)
Exchange differences	729,129	—	259,259	21,611	—	88,467	1,282,945	2,381,411
At 31 December 2010 and 1 January 2011	28,591,282	27,900	14,654,474	1,121,744	19,660	2,881,878	55,017,388	102,314,326
Additions	358,816	—	22,680,803	704,076	—	1,021,322	32,913,175	57,678,192
Disposals	—	—	(4,216,402)	—	—	—	—	(4,216,402)
Acquisition of subsidiaries	10,838,433	—	19,640,216	662,516	—	247,389	—	31,388,554
Disposal of a subsidiary	(30,263,048)	—	(31,959,491)	(1,262,900)	—	(3,682,841)	(91,153,341)	(158,321,621)
Exchange differences	754,678	—	12,253	76,567	—	219,005	3,222,778	4,285,281
At 31 December 2011	10,280,161	27,900	20,811,853	1,302,003	19,660	686,753	—	33,128,330
Accumulated depreciation and impairment losses								
At 1 April 2010	3,080	6,975	20,864	85,627	4,905	409,584	—	531,035
Charges for the period	355,292	5,231	308,540	121,955	3,686	240,718	—	1,035,422
Disposals	—	—	—	(8,175)	—	(368,025)	—	(376,200)
Exchange differences	6,263	—	5,981	2,657	—	6,545	—	21,446
At 31 December 2010 and 1 January 2011	364,635	12,206	335,385	202,064	8,591	288,822	—	1,211,703
Charges for the year	1,911,824	6,975	4,577,304	323,973	4,915	346,684	—	7,171,675
Disposals	—	—	(867,781)	—	—	—	—	(867,781)
Disposal of a subsidiary	(1,436,735)	—	(2,464,495)	(374,233)	—	(719,392)	—	(4,994,855)
Impairment loss	1,518,508	—	3,089,880	—	—	—	—	4,608,388
Exchange differences	24,878	—	72,532	79,730	—	116,498	—	293,638
At 31 December 2011	2,383,110	19,181	4,742,825	231,534	13,506	32,612	—	7,422,768
Carrying amount								
At 31 December 2011	7,897,051	8,719	16,069,028	1,070,469	6,154	654,141	—	25,705,562
At 31 December 2010	28,226,647	15,694	14,319,089	919,680	11,069	2,593,056	55,017,388	101,102,623

18. GOODWILL

	HK$
Cost	
Arising on acquisition of subsidiaries *(note 36(a))* and at 31 December 2011	115,955,924
Accumulated impairment losses	
Impairment loss recognised in the current year and at 31 December 2011	115,955,924
Carrying amount	
At 31 December 2011	—
At 31 December 2010	—

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units ("CGUs") that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

	2011 **HK$**
Exploitation of coal and coal processing in the Republic of Tajikistan ("Tajikistan"): Saddleback Mining Limited ("Saddleback")	**115,955,924**

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

18. GOODWILL *(Continued)*

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next 3 to 5 years with the residual period using the growth rate of 3%. This rate does not exceed the average long-term growth rate for the relevant markets.

The rates used to discount the forecast cash flows from the Group's exploitation of coal and coal processing activities in Tajikistan are in the range of 27.53% to 28.79%.

At 31 December 2011, before impairment testing, goodwill of HK$115,955,924 was allocated to Saddleback within the exploitation of coal and coal processing in Tajikistan segment. Due to changes in market condition, the Group has revised its cash flow forecasts for this CGU. The goodwill allocated to Saddleback has therefore been reduced to its recoverable amount through recognition of an impairment loss against goodwill of HK$115,955,924 during the year.

At 31 December 2011, after impairment loss of HK$115,955,924 was allocated to goodwill and resulted in its full impairment, further impairment losses of HK$4,608,388 and HK$28,720,052 were allocated to the fixed assets and intangible assets of Saddleback respectively pro rata on the basis of the carrying amount of the fixed assets and intangible assets of Saddleback. The carrying amount of the fixed assets and intangible assets of Saddleback have therefore been reduced to its recoverable amount through recognition of the impairment losses during the year.

19. INTANGIBLE ASSETS

	Mining rights
	HK$
Cost	
At 1 April 2010	3,106,727,960
Exchange differences	92,290,136
At 31 December 2010 and 1 January 2011	3,199,018,096
Arising on acquisition of subsidiaries *(note 36(a))*	211,808,508
Additions	271,210
Disposal of a subsidiary *(note 36(b))*	(3,353,610,526)
Exchange differences	141,249,629
At 31 December 2011	198,736,917
Accumulated amortisation and impairment losses	
At 1 April 2010, 31 December 2010 and 1 January 2011	—
Amortisation for the year	10,284,297
Impairment loss	28,720,052
Exchange differences	(198,091)
At 31 December 2011	38,806,258
Carrying amount	
At 31 December 2011	159,930,659
At 31 December 2010	3,199,018,096

At 31 December 2011, the Group's mining rights are the rights obtained by the Group for exploitation of three coal mines located in Tajikistan. The major content of the coal mine is coking coal. The term of the mining rights of these coal mines are from August 1997 to September 2018. The mining rights are stated at cost less accumulated amortisation over the term of the mining rights and impairment losses.

19. INTANGIBLE ASSETS *(Continued)*

At 31 December 2010, the Group's mining rights were the rights obtained by the Group for exploitation of a coal mine located in Inner Mongolia, the PRC and which was disposed during the year. The major content of the coal mine is coking coal. The term of the mining rights of this coal mine is from August 2006 to August 2016. The mining rights are stated at cost less accumulated amortisation over the term of the mining rights. As the coal mine is still under construction and not yet available for exploitation, no amortisation of the mining rights is charged during year/period.

At 31 December 2011, the carrying amount of intangible assets pledged as security for the Group's bank loan amounted to HK$Nil (2010: HK$3,199,018,096).

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2011 HK$	2010 HK$
Unlisted equity securities, at cost	**71,173**	—

Unlisted equity securities with carrying amount of HK$71,173 (2010: HK$Nil) was carried at cost as they do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

21. INVENTORIES

	2011 HK$	2010 HK$
Raw materials, consumable goods and spare parts	**4,366,781**	142,171
Coal	**642,575**	—
	5,009,356	142,171

22. TRADE AND BILLS RECEIVABLES

	2011 HK$	2010 HK$
Trade receivables	**133,981**	23,367,365
Bills receivables	**—**	7,203,187
	133,981	30,570,552

The credit terms of trade receivables are in accordance with specific payment schedules agreed with various customers.

22. TRADE AND BILLS RECEIVABLES *(Continued)*

An ageing analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	2011	2010
	HK$	HK$
0–30 days	**—**	16,177,392
31–60 days	**57,011**	5,836,059
61–90 days	**73,042**	1,007,150
Over 90 days	**3,928**	346,764
	133,981	23,367,365

Reconciliation of allowance of trade receivables:

	2011	2010
	HK$	HK$
At 1 January	**—**	—
Allowance for the year	**29,102**	—
At 31 December	**29,102**	—

As of 31 December 2011, trade receivables of HK$133,981 (2010: HK$346,764) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. An ageing analysis of these trade receivables is as follows:

	2011	2010
	HK$	HK$
Up to 3 months	**130,053**	202,524
Over 3 months	**3,928**	144,240
	133,981	346,764

As at 31 December 2011, trade receivables are denominated in TJS (2010: RMB).

23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2011 **HK$**	2010 HK$
Deposits placed with a securities broker	**51,058,663**	50,103,188
Utilities and other deposits	**55,400**	6,321,058
Prepayments	**345,857**	411,201
Other receivables *(note)*	**648,390,634**	18,365,921
	699,850,554	75,201,368

Note: Included in other receivables is cash receivable for the consideration of disposal of a subsidiary of HK$642,000,000 (note 36(b)). The cash receivable is unsecured, interest-free and repayable on demand. As at the date of approval of these financial statements, cash receivable of HK$546,000,000 has been received.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011 **HK$**	2010 HK$
Equity securities listed in Hong Kong at fair value	**1,550,000**	—

The carrying amounts of the above financial assets are designated as fair value through profit or loss on initial recognition and analysed as current assets.

The investments included above represent investments in listed equity securities that offer the Group the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate.

The fair values of listed securities are based on current bid prices.

25. BANK AND CASH BALANCES

As at 31 December 2011, the bank and cash balances of the Group denominated in RMB amounted to HK$264,701,191 (2010: HK$153,470,076).

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

26. OTHER PAYABLES AND ACCRUALS

	2011	2010
	HK$	HK$
Accruals	**2,465,170**	1,394,846
Other payables	**13,857,306**	25,516,907
	16,322,476	26,911,753

27. BANK LOAN

	2011	2010
	HK$	HK$
Bank loan — secured *(note 37)*	—	351,375,000
The bank loan is repayable as follows:		
On demand or within one year	—	5,856,250
In the second year	—	17,568,750
In the third to fifth years inclusive	—	234,250,000
After five years	—	93,700,000
	—	351,375,000

The bank loan is denominated in RMB.

Bank loan is arranged at floating rate, thus exposing the Group to cash flow interest rate risks. The interest rate was Nil at 31 December 2011 (2010: 5.98%).

28. CONVERTIBLE BONDS

On 10 June 2008 the Group issued convertible bonds ("Bonds") with a nominal value of HK$770,000,000 comprising 770 Bonds of HK$1,000,000 each.

The Bonds mature on the fifth anniversary from the date of issue of the Bonds (the "Maturity Date"). Under the conditions of the Bonds, each Bond may be converted into a maximum of 1,000,000 new shares (each a "New Share") of the Company ("Conversion Cap"), subject to increase and adjustment in the manner stipulated in the conditions. If upon conversion of the Bond, the number of New Shares required to be issued by the Company would exceed the Conversion Cap, the Bond shall be converted only up to the Conversion Cap, and the unconverted amount of the Bond shall be redeemed by the Company in cash equal to 120% of the unconverted principal amount together with accrued interest ("Conversion Cap Payment"). Subject to the aforesaid, the bondholders have the right to convert the Bonds at any time prior to the Maturity Date into New Shares on and subject to the terms and conditions of the Bonds at the lower of either (a) HK$1.30 per New Share; or (b) 100% of the average of the three lowest closing prices for a share of the Company on the Stock Exchange, or if trading in the shares of the Company is suspended and there is no closing price at the Stock Exchange on a relevant day, the last traded price reported per share on such day, during the 20 trading days period prior to the date of issue of the conversion notice (the "Variable Conversion Price") save that the lowest Variable Conversion Price shall not be less than the nominal value of the shares of the Company (the "Conversion Price"); provided that no conversion right may be exercised, to the extent that following such exercise, a holder of the Bonds and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 30% or more of the voting rights in respect of the issued shares of the Company (or in such lower percentage as may from time to time be specified in The Code on Takeovers and Mergers and Share Repurchases ("Takeovers Code") issued by the Securities and Futures Commission of Hong Kong as being the level for triggering a mandatory general offer). Subject to the Conversion Cap, the aggregate principal amount of the Bonds together with the accrued interest shall be automatically converted to New Shares on the Maturity Date at the then prevailing Conversion Price unless such conversion will result in a holder of the Bonds and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 30% or more of the voting rights in respect of the issued shares of the Company (or in such lower percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer). Interest of 1 per cent per annum is payable at the time of conversion and redemption of the Bonds. The Company is entitled to cancel and to redeem all the Bonds in whole at any point in time after the third anniversary of the date of issue of the Bonds prior to the Maturity Date at 135% of their principal amount together with accrued interest. Further details of the Bonds are set out in the circular of the Company dated 30 April 2008.

28. CONVERTIBLE BONDS *(Continued)*

On 20 July 2009 the Company entered an agreement for variation of the terms and conditions of the Bonds ("Variation Agreement") with the bondholders. Under the Variation Agreement, the Company and the bondholders agreed that the conditions of the Bonds be amended in the following manner:

(1) If upon the conversion of the Bonds, Conversion Cap will be exceeded, the Company will be required to issue a convertible bond ("Replacement Bonds") to the converting bondholder in principal amount equal to the Conversion Cap Payment in satisfaction of its obligation to make the Conversion Cap Payment in cash. The Replacement Bonds shall be convertible into ordinary shares of the Company ("Shares") at a fixed conversion price on and subject to the terms and conditions agreed by the Company and the bondholders under the Variation Agreement;

(2) The Company shall have no right to require the early cancellation or redemption of any of the Bonds prior to the Maturity Date;

(3) The conversion price of the Bonds shall not be less than the floor price of HK$0.20 per Share (subject to adjustment if there shall be an alteration to the nominal value of the Shares as a result of consolidation, subdivision or reclassification); and

(4) Further amendments of editorial nature that are ancillary or consequential to the above, as stipulated in the Variation Agreement.

Further details of the Variation Agreement and Replacement Bonds are set out in the circular of the Company dated 17 August 2009.

The maturity date of the Replacement Bonds is same as the Bonds. The bondholders have the right to convert at any time from issue date up to Maturity Date into Shares at a fixed conversion price at HK$0.70 per Share. The outstanding principal amount of the Replacement Bonds together with the accrued interest (if not paid by cash on redemption at maturity or upon acceleration) shall be automatically converted to Shares upon Maturity Date unless such conversion will result a holder of the Replacement Bonds and parties acting in concert with it, taken together, will directly or indirectly control or be interested in 30% or more of the voting rights in respect of the issued shares of the Company (or in such lower percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) or the public float of the shares of the Company will fall below the minimum public float requirements stipulated under the GEM Listing Rules. Interest of 3.75 per cent per annum (compounded annually) is payable (i) in conversion shares on conversion; or (ii) in cash at maturity. The Company has no right to require the early cancellation or redemption of any of the Replacement Bonds prior to the Maturity Date.

28. CONVERTIBLE BONDS *(Continued)*

	Year ended 31 December 2011 HK$	Period from 1 April 2010 to 31 December 2010 HK$
Beginning of the year/period	**186,211,165**	228,173,030
Interest charged	**20,242,313**	16,244,593
Replacement Bonds converted and repaid during the year/period		
— by issue of Nil Shares (period from 1 April 2010 to 31 December 2010: 106,900,000)	**—**	(58,194,725)
— by cash	**—**	(11,733)
Liability component at the end of the year/period	**206,453,478**	186,211,165

The interest charged for the year/period is calculated by applying an average effective interest rate of 12.69 per cent to the liability component for the year/period.

The directors estimate the fair value of the liability component of the Replacement Bonds at 31 December 2011 to be approximately HK$202,827,000 (2010: HK$189,023,000). This fair value has been calculated by discounting the future cash flows at the market rate.

29. DUE TO A FORMER OWNER OF A SUBSIDIARY

Amount due to a former owner of a subsidiary is denominated in US$, unsecured and interest bearing at 2% per annum and repayable as follow:

	2011 HK$	2010 HK$
Within one year	**50,976,026**	—
In the second year	**16,992,009**	—
	67,968,035	—

30. DEFERRED TAX

The following are the major deferred tax (liabilities) and assets recognised by the Group.

	Fair value adjustment of mining rights HK$	Fair value adjustment of fixed assets HK$	Total HK$
At 1 April 2010	(773,424,565)	—	(773,424,565)
Exchange differences	(22,975,767)	—	(22,975,767)
At 31 December 2010 and 1 January 2011	(796,400,332)	—	(796,400,332)
Arising on acquisition of subsidiaries	(42,361,702)	589,562	(41,772,140)
Disposal of a subsidiary *(note 36(b))*	832,676,068	—	832,676,068
Exchange differences	(33,608,220)	(37,125)	(33,645,345)
At 31 December 2011	(39,694,186)	552,437	(39,141,749)

31. SHARE CAPITAL

	Number of shares	Amount HK$
Authorised:		
Ordinary shares of HK$0.01 each		
At 1 April 2010, 31 December 2010, 1 January 2011 and 31 December 2011	10,000,000,000	100,000,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
At 1 April 2010	2,005,675,000	20,056,750
Issue of shares for Replacement Bonds converted *(note 28)*	106,900,000	1,069,000
Issue of shares on exercise of share options *(note i)*	1,808,750	18,088
At 31 December 2010 and 1 January 2011	2,114,383,750	21,143,838
Issue of shares for acquisition of subsidiaries *(note ii)*	422,876,750	4,228,767
Issue of shares on exercise of share options *(note i)*	74,745,200	747,452
At 31 December 2011	2,612,005,700	26,120,057

31. SHARE CAPITAL *(Continued)*

Note:

(i) During the year ended 31 December 2011, 74,745,200 Shares (period from 1 April 2010 to 31 December 2010: 1,808,750 Shares) were issued in relation to share options exercised by the employees, executives, officers, directors, business consultants of the Company and the Company's subsidiaries under the share option scheme of the Company at HK$0.215 (period from 1 April 2010 to 31 December 2010: HK$0.69 and HK$0.762) for a total cash consideration of HK$16,070,218 (period from 1 April 2010 to 31 December 2010: HK$1,339,389). The excess of the subscription consideration received over the nominal values issued, amounted to HK$15,322,766 (period from 1 April 2010 to 31 December 2010: HK$1,321,301), was credited to the share premium account.

(ii) On 15 March 2011 a wholly owned subsidiary of the Company entered a share sale and purchase agreement with an independent third party to acquire the entire issued share capital in Saddleback ("Acquisition"). Part of the consideration of the Acquisition was satisfied by allotting and issuing of 422,876,750 Shares to the vendor. On 25 March 2011, the Company issued 422,876,750 Shares at the then market price of HK$0.415 each resulting in a premium of HK$0.405 per share as part of the settlement of the consideration of the Acquisition.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debts less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, non-controlling interests, retained profits and other reserves).

	2011 HK$	2010 HK$
Total debt	**274,421,513**	537,586,165
Less: cash and cash equivalents	**(294,846,882)**	(242,442,501)
Net debt	**(20,425,369)**	295,143,664
Adjusted capital	**857,212,429**	2,486,766,495
Debt-to-adjusted capital ratio	**N/A**	12%

31. SHARE CAPITAL *(Continued)*

The decrease in the debt-to-adjusted capital ratio during 2011 resulted primarily from the decrease of bank loan.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the Shares. The Group receives a report from the share registrars monthly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 December 2011, 75.5% (2010: 89.80%) of the shares were in public hands.

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2011 **HK$**	2010 HK$
Fixed assets	**43,265**	80,571
Investments in subsidiaries	**24**	32
Financial assets at fair value through profit or loss	**1,550,000**	—
Prepayments and other receivables	**51,459,220**	61,731,168
Amounts due from subsidiaries	**1,005,627,773**	989,081,580
Bank and cash balances	**16,136,264**	84,789,015
Accruals	**(11,150,631)**	(911,078)
Amount due to a subsidiary	**(8)**	(16)
Convertible bonds	**(206,453,478)**	(186,211,165)
NET ASSETS	**857,212,429**	948,560,107
Share capital	**26,120,057**	21,143,838
Reserves *(note 33(b))*	**831,092,372**	927,416,269
TOTAL EQUITY	**857,212,429**	948,560,107

33. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of comprehensive income and consolidated statement of changes in equity.

(b) Company

	Share premium *(note c(i))* HK$	Share-based payment reserve *(note c(iii))* HK$	Convertible bonds reserve *(note 4(m))* HK$	Accumulated losses HK$	Total HK$
At 1 April 2010	889,427,506	22,244,121	138,552,786	(144,581,809)	905,642,604
Loss for the period	—	—	—	(46,174,654)	(46,174,654)
Share-based payments	—	9,501,293	—	—	9,501,293
Share options forfeited	—	(2,380,648)	—	2,380,648	—
Issue of shares for Replacement Bonds converted	91,877,184	—	(34,751,459)	—	57,125,725
Issue of shares on exercise of share options	1,875,846	(554,545)	—	—	1,321,301
At 31 December 2010 and 1 January 2011	983,180,536	28,810,221	103,801,327	(188,375,815)	927,416,269
Loss for the year	—	—	—	(293,162,747)	(293,162,747)
Share-based payments	—	10,251,000	—	—	10,251,000
Share options forfeited	—	(3,910,462)	—	3,910,462	—
Issue of shares for acquisition of subsidiaries	171,265,084	—	—	—	171,265,084
Issue of shares on exercise of share options	20,979,582	(5,656,816)	—	—	15,322,766
At 31 December 2011	1,175,425,202	29,493,943	103,801,327	(477,628,100)	831,092,372

(c) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the funds in the share premium of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 4(c) to the financial statements.

(iii) Share-based payment reserve

The share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees and consultants of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 4(p) to the financial statements.

34. SHARE-BASED PAYMENTS

Equity-settled share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants include the full-time and part-time employees, executives, officers, directors, business consultants, agents, legal and financial advisers of the Company and the Company's subsidiaries. The Scheme became effective on 9 December 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares on the date of the offer.

Share options do not confer rights on the holder to dividends or to vote at shareholders' meetings.

34. SHARE-BASED PAYMENTS *(Continued)*

Equity-settled share option scheme *(Continued)*

Details of the specific categories of options are as follows:

	Date of grant	Exercise period	Exercise price HK$
2008	19 February 2008	19 February 2008 – 18 February 2011	0.690
2009A	24 June 2008	24 June 2008 – 23 June 2011	0.780
2009B	8 January 2009	8 January 2009 – 7 January 2012	0.394
2010A	11 August 2009	11 August 2009 – 10 August 2012	0.762
2010B	18 November 2009	18 November 2009 – 17 November 2012	1.184
2010C	9 February 2010	9 February 2010 – 8 February 2013	1.078
2010D	18 October 2010	18 October 2010 – 17 October 2013	0.560
2011	12 August 2011	12 August 2011 – 9 December 2013	0.215

If the options remain unexercised after a period of 3 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year/period are as follows:

	Year ended 31 December 2011		Period from 1 April 2010 to 31 December 2010	
	Number of share options '000	**Weighted average exercise price HK$**	Number of share options '000	Weighted average exercise price HK$
Outstanding at the beginning of the year/period	**92,858**	**0.72**	59,916	0.83
Granted during the year/period	**135,267**	**0.22**	42,288	0.56
Exercised during the year/period	**(74,745)**	**0.22**	(1,808)	0.59
Forfeited during the year/period	**(11,338)**	**0.77**	(7,538)	0.78
Outstanding at the end of the year/period	**142,042**	**0.50**	92,858	0.72
Exercisable at the end of the year/period	**142,042**	**0.50**	92,858	0.72

34. SHARE-BASED PAYMENTS *(Continued)*

Equity-settled share option scheme *(Continued)*

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.40 (period from 1 April 2010 to 31 December 2010: HK$1.01). The options outstanding at the end of the year have a weighted average remaining contractual life of 1.6 years (2010: 2.65 years) and the exercise prices ranged from HK$0.215 to HK$1.184 (2010: HK$0.394 to HK$1.184). For the year ended 31 December 2011, options were granted on 12 August 2011. The estimated fair values of the options on that date is HK$10,251,000. For the period from 1 April 2010 to 31 December 2010, options were granted on 18 October 2010. The estimated fair values of the options on that date is HK$9,501,293.

These fair values were calculated using the Binomial model and Trinomial model. The input into the models were as follows:

	2011	2010D
Valuation model	Trinomial model	Binomial model
Weighted average share price	HK$0.209	HK$0.560
Weighted average exercise price	HK$0.215	HK$0.560
Expected volatility	65.202%	69.905%
Expected life	2.33 years	3 years
Risk free rate	0.176%	0.650%
Expected dividend yield	Nil	Nil

Expected volatility was determined by calculating the historical volatility of the Company over 2.33 years and 3 years for 2011 and 2010D respectively. The expected life used in the model has been adjusted, based on the Group's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

Share options granted to consultants were incentives for helping the Group expand its business network, acquire and explore new business projects and opportunities. The fair value of such benefit could not be estimated reliably and as a result, the fair value is measured by reference to the fair value of share options granted.

35. SUBSIDIARIES

Particulars of subsidiaries as at 31 December 2011 are as follows:

Name	Place of incorporation/ registration and operation	Issued and paid up capital/chartered fund	Attributable equity interest	Principal activities
Directly held				
Coastal Kingfold Finance Limited	British Virgin Islands	US$1 Ordinary	100%	Investment holding
West Glory Development Limited	British Virgin Islands	US$1 Ordinary	100%	Investment holding
Kaisun Energy Corporation	British West Indies	US$1 Ordinary	100%	Not yet commenced business
Indirectly held				
Imare Company Limited	British Virgin Islands	US$50,000 Ordinary	100%	Investment holding
Joy Harvest Holdings Limited	Hong Kong	HK$1,000 Ordinary	100%	Investment holding
Saddleback	United Kingdom	GBP100 Ordinary	100%	Investment holding
Saddleback Gold Corporation LLC	Tajikistan	TJS70,000	100%	Investment holding and trading of coal
Sangghalt LLC	Tajikistan	TJS109,800	95.63%	Exploitation of coal and coal processing
Vuromun LLC	Tajikistan	TJS105,263	95%	Exploitation of coal and coal processing
Kamarob LLC	Tajikistan	TJS4,500,000 (TJS2,000,000 paid-up)	52%	Exploitation of coal and coal processing
Rovat LLC	Tajikistan	TJS1,600	100%	Dormant

36. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Acquisition of subsidiaries

On 15 March 2011, the Group entered into an agreement to acquire the entire issued capital of Saddleback at a consideration of US$22,433,089 ("Saddleback Agreement"). Saddleback was engaged in investment holding and its subsidiaries were engaged in investment holding and exploitation of coal and coal processing during the year. The acquisition was completed on 25 March 2011 ("Completion Date").

Acquisition-related costs of approximately HK$7,748,000 are accounted for as expenses in current year.

The fair value of the identifiable assets and liabilities of Saddleback acquired as at its date of acquisition is as follows:

	Carrying amount HK$	**Fair value adjustment** HK$	**Fair value** HK$
Net assets acquired:			
Goodwill	20,514,996	(20,514,996)	—
Fixed assets	34,336,364	(2,947,810)	31,388,554
Intangible assets	—	211,808,508	211,808,508
Inventories	6,674,720	—	6,674,720
Trade and other receivables	41,168	—	41,168
Deposits, prepayments and other receivables	503,330	—	503,330
Bank and cash balances	68,354	—	68,354
Other payables and accruals	(3,961,864)	—	(3,961,864)
Current tax liabilities	(469,815)	—	(469,815)
Deferred tax liabilities	—	(41,772,140)	(41,772,140)
Due to former owner	(68,414,555)	—	(68,414,555)
			135,866,260
Non-controlling interests			(46,304,948)
Goodwill			115,955,924
			205,517,236
Satisfied by:			
Cash paid for investment cost			19,500,000
Share capital issued as partial consideration *(note 31)*			175,493,851
Contingent consideration *(note)*			10,523,385
			205,517,236
Net cash outflow arising on acquisition:			
Cash paid for investment cost			(19,500,000)
Cash and cash equivalents acquired			68,354
			(19,431,646)

36. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(a) Acquisition of subsidiaries *(Continued)*

Note: According to Saddleback Agreement, if Rovat LLC, a wholly owned subsidiary of the Group, could obtain all requisite documents proving the valid grant by the competent Tajik Government Agency of coking coal and/or thermal coal mining rights at a coal deposit in Tajikistan after 9 months from the Completion Date ("Trigger Condition"), the Group was required to pay the contingent consideration of US$1,500,000 to the former owner of Saddleback and US$1,200,000 to the founder of Rovat LLC. As the Trigger Condition has not been satisfied, no contingent consideration paid to the former owner of Saddleback and the founder of Rovat LLC.

The fair value of the 422,876,750 Shares issued as part of the consideration paid was determined on the basis of the closing market price of the Company's ordinary shares on the acquisition date.

The goodwill arising on the acquisition of Saddleback is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

Saddleback contributed approximately HK$6,058,000 and HK$17,711,000 to the Group's turnover and loss for the year respectively for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2011, total Group turnover for the year would have been approximately HK$62,852,000, and loss for the year would have been HK$1,064,140,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is intended to be a projection of future results.

36. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(b) Disposal of a subsidiary

As referred in note 11 to the financial statements, on 22 December 2011 the Group discontinued its exploitation of coal and coal processing business in the PRC at the time of the disposal of its subsidiary, Mengxi Minerals.

Net assets at the date of disposal were as follows:

	HK$
Fixed assets	153,326,766
Intangibles assets	3,353,610,526
Deposits paid for construction in progress	348,765,122
Inventories	97,297
Trade receivables	42,674,043
Deposits, prepayments and other receivables	3,919,653
Current tax assets	1,626,592
Bank and cash balances	31,986,134
Other payables and accruals	(108,254,336)
Amount due to former immediate parent	(1,448,739)
Bank loan	(361,257,000)
Deferred tax liabilities	(832,676,068)
Net assets disposed of	2,632,369,990
Release of foreign currency translation reserve	(134,413,083)
Non-controlling interests	(789,710,997)
Direct cost to the disposal	98,944,498
Waiver of amount due to former immediate parent	1,448,739
Loss on disposal of a subsidiary	(836,639,147)
Total consideration	972,000,000
Cash receivable under deposits, prepayments and other receivables *(note 23)*	(642,000,000)
Direct cost to the disposal payable under other payables and accruals	5,000,000
	335,000,000
Net cash inflow arising on disposal:	
Cash consideration received	330,000,000
Cash paid for direct cost	(93,944,498)
Cash and cash equivalents disposed of	(31,986,134)
	204,069,368

37. BANKING FACILITIES

At 31 December 2011, the Group has been granted banking facilities totaling HK$Nil (2010: HK$351,375,000) of which HK$Nil (2010: HK$351,375,000) were utilised. At 31 December 2010, the facilities were secured by pledge of the mining rights held by the Group and the entire equity interest of the disposed subsidiary held by the Group and the non-controlling shareholder.

38. CONTINGENT LIABILITIES

At 31 December 2011, the Group did not have any significant contingent liabilities.

39. CAPITAL COMMITMENTS

The Group's capital commitments at the end of the reporting period are as follows:

	2011	2010
	HK$	HK$
Fixed assets		
Contracted but not provided for	**–**	35,202,767

40. LEASE COMMITMENTS

At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2011	2010
	HK$	HK$
Within one year	**1,069,538**	57,500

Operating lease payments represent rentals payable by the Group for certain of its offices and warehouse. Leases are negotiated for an average term of 1 to 4 years and rentals are fixed over the lease terms and do not include contingent rentals.

41. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year/period.

	Year ended 31 December 2011 HK$	Period from 1 April 2010 to 31 December 2010 HK$
Consultancy fee paid to Oriental Patron Asia Limited	**500,000**	—
Interest on Bonds and Replacement Bonds charged by Pacific Top Holding Limited and Profit Raider Investments Limited	**20,242,313**	15,251,058

Pacific Top Holding Limited and Profit Raider Investments Limited are shareholders of the Company and are beneficially owned by ZHANG Gaobo and ZHANG Zhi Ping. Oriental Patron Asia Limited is beneficially owned by ZHANG Gaobo and ZHANG Zhi Ping.

42. SEGMENT INFORMATION

The Group has two reportable segments which are exploitation of coal in the PRC and in Tajikistan for the year. The exploitation of the coal in the PRC was discontinued during the year.

The Group has a sole reportable segment which is exploitation of coal in the PRC for the period from 1 April 2010 to 31 December 2010.

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the operating segments are the same as those described in note 4 to the financial statements. Segment profits or losses do not include dividend income and gains or losses from investments and derivative instruments. Segment assets do not include amounts due from related parties, investments and derivative instruments. Segment liabilities do not include convertible bonds and derivative instruments. Segment non-current assets do not include financial instruments and deferred tax assets.

42. SEGMENT INFORMATION *(Continued)*

Information about reportable segment profit or loss, assets and liabilities:

	Discontinued operations		
	Exploitation of coal in the PRC HK$	Exploitation of coal in Tajikistan HK$	Total HK$
Year ended 31 December 2011			
Revenue from external customers	56,621,502	6,058,165	62,679,667
Segment loss	(3,635,083)	(17,710,924)	(21,346,007)
Interest revenue	188,730	—	188,730
Depreciation and amortisation	3,535,054	13,805,170	17,340,224
Income tax expense	—	—	—
Additions to segment non-current assets	50,221,548	7,718,560	57,940,108
As at 31 December 2011			
Segment assets	—	197,602,827	197,602,827
Segment liabilities	—	73,139,880	73,139,880

Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

	Year ended 31 December 2011 HK$
Revenue	
Total revenue of reportable segments	62,679,667
Elimination of discontinued operations	(56,621,502)
Consolidated revenue	6,058,165
Profit or loss	
Total profit or loss of reportable segments	(21,346,007)
Impairment loss on fixed assets	(4,608,388)
Impairment loss on goodwill	(115,955,924)
Impairment loss on intangible assets	(28,720,052)
Loss on disposal of a subsidiary	(836,639,147)
Unallocated corporate income	12,122,439
Unallocated corporate expense	(64,625,947)
Elimination of discontinued operations	840,274,230
Consolidated loss for the year from continuing operations	(219,498,796)

42. SEGMENT INFORMATION *(Continued)*

Reconciliations of reportable segment revenue, profit or loss, assets and liabilities: *(Continued)*

	At 31 December 2011 HK$
Assets	
Total assets of reportable segments	197,602,827
Available-for-sale financial assets	71,173
Financial assets at fair value through profit or loss	1,550,000
Unallocated corporate assets	987,874,167
Consolidated total assets	1,187,098,167
Liabilities	
Total liabilities of reportable segments	73,139,880
Convertible bonds	206,453,478
Deferred tax liabilities	39,141,749
Unallocated corporate liabilities	11,150,631
Consolidated total liabilities	329,885,738

Geographical information:

Revenue

	Year ended 31 December 2011 HK$	Period from 1 April 2010 to 31 December 2010 HK$
Tajikistan	6,058,165	—
The PRC	56,621,502	59,618,521
Discontinued operations	(56,621,502)	(59,618,521)
Consolidated total	6,058,165	—

42. SEGMENT INFORMATION *(Continued)*

Geographical information: *(Continued)*

Non-current assets

	2011 HK$	2010 HK$
Hong Kong	43,265	80,571
Tajikistan	185,664,129	—
The PRC except Hong Kong	—	3,521,748,073
Consolidated total	185,707,394	3,521,828,644

In presenting the geographical information, revenue is based on the locations of the customers.

Revenue from major customers:

	Year ended 31 December 2011 HK$	Period from 1 April 2010 to 31 December 2010 HK$
Exploitation of coal in the PRC (discontinued operations):		
Customer a	18,416,786	11,861,886
Customer b	—	10,837,605
Customer c	—	8,331,264
Customer d	21,434,350	2,270,012
Customer e	16,256,947	5,670,267

43. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 30 March 2012.